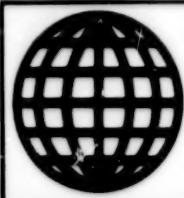


JPRS-CRF-88-019

27 JULY 1988



FOREIGN  
BROADCAST  
INFORMATION  
SERVICE

# ***JPRS Report***

## **China**

---

### ***RED FLAG***

No 11, 1 June 1988

# China

## Red Flag

No 11, 1 June 1988

JPRS-CRF-88-019

## CONTENTS

27 July 1988

[Translation of HONGQI, the semimonthly theoretical journal of the Central Committee of the Communist Party of China, published in Beijing]

|  |    |
|--|----|
| Let the 'Spark' of Science and Technology Start a 'Prairie Fire' in Revitalizing the Rural Economy<br><i>[Yang Jun]</i> .....  | 1  |
| My Views on a Solution to the Grain Problem in China <i>[Yuan Chongfa]</i> .....   | 6  |
| Exploring Ways of Setting Up A Rural Social Security System with Chinese Characteristics<br><i>[Cui Naifu]</i> .....           | 11 |
| How Is Zhaoyuan County in Shandong Province Carrying Out Its Rural Circulation Reform?<br><i>[Wang Lingchen]</i> .....         | 13 |
| Several Questions Concerning the Building and the Reform of Town and Township Organizations<br><i>[Liu Zhenwei]</i> .....      | 17 |
| On Abstract Understanding in Historical Research <i>[Liu Zehua, Qiao Zhizhong]</i> .....                                       | 21 |
| Minutes of 1988 HONGQI Coordinators Meeting .....  | 28 |
| Cultural Studies Should Be Based on Reality—An Interview With Ding Shouren<br><i>[Ding Shouren Interview]</i> .....            | 29 |
| Reform Has Relieved the Modern Drama Troupe of Its Crisis <i>[Wang Zhihong]</i> .....  | 33 |
| 22d Lecture of Forum on Socialist Commodity Economy: Taxation in a Socialist Country <i>[Jin Xin]</i> .....                    | 35 |
| 23d Lecture of Forum on Socialist Commodity Economy: Foreign Exchange and Exchange Rate<br><i>[Tang Gengyao]</i> .....         | 39 |
| Let the Fire of Ideals Burn Even More Brilliantly—After Watching the Teleplay 'Wedding Candles'<br><i>[Chen Huisang]</i> ..... | 43 |
| The Microeconomic Base for Perfecting Market Mechanism <i>[Xu Xuezhen]</i> .....   | 44 |

## RED FLAG

No 11, 1 June 1988

### Let the 'Spark' of Science and Technology Start a 'Prairie Fire' in Revitalizing the Rural Economy

HK2806083188 Beijing HONGQI /RED FLAG/ in Chinese No 11, 1 Jun 88 pp 2-6

[Article by Yang Jun (2799 3182); passages in boldface as originally published]

[Text]

#### Unexpectedly Good Progress

Approved by the CPC Central Committee and the State Council, the State Science and Technology Commission has been implementing the "spark" program across the country. By the end of 1987, the "spark" program had been implemented in almost all the counties in all the provinces, autonomous regions, and municipalities directly under the central government. The "spark" program had been implemented unexpectedly fast on such a big scale. In the light of the actual demand for the exemplary projects which "need a shorter development period, conform with the standard of rural productive forces and management, and can bring in quick results," the State Science and Technology Commission began to build some 9,000 "spark" program projects at the state, provincial, prefectural, and county levels in 1987. All these projects had been carefully selected and were urgently required for the development of the rural economy. Therefore, the building of these projects has been carried out very smoothly. Some of these projects have already been built; some have yielded good economic results; and a large number have yielded good initial results. Among over 4,500 projects which were begun in 1986, the construction of some 2,872 has already been completed. According to incomplete statistics, the newly increased output value of these projects has already reached 7.39 billion yuan, while the newly increased profits and taxes of these projects have reached 1.55 billion yuan. In 1987, the construction of some 5,000 more projects was started. According to the present situation concerning the construction of these projects, it is estimated that after these projects are built, their newly increased output value will probably reach 16.5 billion yuan, while their newly increased profits and taxes will probably reach 3.9 billion yuan. We are pleased to see that the "spark" program has achieved so many unexpected good economic results within such a short period of time and will continue to achieve more gratifying economic results in the future.

Thanks to the implementation of the "spark" program, some areas of our country have developed a large number of quality products. The economy of these areas has been greatly developed in the course of the implementation of the "spark" program. Since the implementation of the "spark" program, over the past 2 years, Jilin

Province has developed over 150 new products, among which four new products have won world innovation prizes, 10 new products have won provincial prizes for quality products, 16 new products have won various prizes awarded by the state and the state ministries or commissions, and some 30 new products have won provincial or city prizes for new products. Over the past 2 years, Jilin Province has attracted over 110 scientific and technological institutions, universities, and colleges and over 2,000 scientific and technological personnel to take part in its implementation of the "spark" program. To date, the increased output value of Jilin Province has reached over 100 million yuan.

Since the implementation of the "spark" program, some regions of our country have built some relatively influential industries. Fujian Province has built a big "spark" program project called the "Comprehensive Edible Mushroom Development Demonstration Site" in 7 prefectures (cities), 29 counties, and 48 townships. After a year's construction, the project has produced a total of 2,180 tons of edible mushrooms, supplied 430,000 bottles of mushroom varieties, realized a production capacity of 90 tons of dried mushrooms a year, and built a production line which is capable of producing 500 tons of Xianggu mushrooms a year. The total newly increased output value of the project has reached 36.8 million yuan.

Because the "spark" program has produced good economic results in the course of its implementation, it has become very popular in the rural areas of our country. The implementation of the "spark" program has enabled the broad masses of peasants, including the broad masses of the staff and workers of the township and town enterprises, to understand the important role of science and technology in revitalizing the rural economy and to see the bright prospects for our country's agricultural modernization. The broad masses of peasants say that they are "thinking about the 'spark' program and waiting for the implementation of the 'spark' program" and that "it is better to give a scientific and technological cadre than to give money and goods." These remarks of the peasants show that the broad masses of the peasants urgently need science and technology. And these remarks of the peasants also reflect the important change in the peasants' outlook on value. A lot of facts have shown that the "spark" program has begun to strike root in the hearts of the people and in the vast fertile land of the rural areas of our country. We can say that this is the fundamental progress of the implementation of the "spark" program.

#### A New Thing in the Tide of Reform

The "spark" program has been warmly welcomed by the broad masses of peasants and has been rapidly implemented in the rural areas of our country. One of the important reasons is that the "spark" program is a new thing that has emerged amidst the tide of reform.

In the 1950's and 1960's, the state adopted some measures and formulated some plans to try to popularize science and technology in the rural areas. Although many agricultural scientific and technological workers once made great efforts to popularize science and technology in the rural areas, they failed to arouse the enthusiasm of the broad masses of peasants in learning and applying science and technology. The implementation of the contracted responsibility system in the rural areas has enabled the broad masses of peasants to obtain decision-making power in their operations and become independent commodity producers. The role played by the law of commodity production and the role played by the law of value have enabled the commodity producers to carry out commodity exchange on an equal basis. Thus those whose technological standard is higher, whose management is more efficient, and whose production costs are lower certainly have greater competitiveness on the market. As a result, the broad masses of peasants have begun to show more concern about science and technology and have become more anxious to learn and apply science and technology. This is great historical progress and a change of profound significance which has taken place in the rural areas of our country over the past 30 years, showing a new awakening of our country's 800 million peasants in the course of the development of commodity economy. This is also the important premise and social conditions for the formulation of the "spark" program.

At present, the biggest difficulty confronted by the rural areas and the township and town enterprises is the lack of technology and qualified personnel. Currently, on average, there is only one technician in every 100 township and town enterprises. There are fewer than two technicians in every 10,000 people in the rural areas. However, meanwhile, many universities and colleges as well as scientific research institutions are overstaffed with scientific and technological personnel. And a lot of scientific research achievements have not been applied to the production field, especially in the rural areas. Under such circumstances and facing such a sharp contradiction, after summing up the experiences of Hebei Province, Liaoning Province, and some other provinces in sending scientific and technological personnel to the rural areas to help the peasants to shake off poverty and become prosperous, the State Science and Technology Commission has come to realize: "In order to deepen the reform of the rural areas, it is all the more necessary to apply science and technology to the rural areas. Scientific and technological work must serve the needs of the rural reform. Science and technology must be geared to the needs of economic construction and serve economic construction. The rural areas are an important battlefield. Therefore, scientific and technological personnel should not always fix their eyes on the cities and big and medium-sized enterprises only. Instead, scientific and technological personnel should make greater efforts to serve the rural areas and the township and town enterprises which badly need science and technology and have more flexible operational

mechanisms. At present, what the rural areas and the township and town enterprises really need is not "high-grade, precision, and advanced" technologies, but practical technologies which "need a shorter development period, conform with the standard of the rural productive forces and management, and can yield quick results." Based on such an understanding, at a time when the reform of the economic structure and the reform of the scientific and technological structure were being deepened, the State Science and Technology Commission submitted its application report on the implementation of the "spark" program to the CPC Central Committee and the State Council. The leaders of the central authorities immediately paid great attention to the application report submitted by the State Science and Technology Commission. Comrade Zhao Ziyang wrote on the application report: "This is a practical undertaking which will bring long-term benefits to our country. Without developing the township and town enterprises, it will be impossible for us to carry out the reform of the agricultural structure. Without relying on science and technology, it will be impossible for us to develop the township and town enterprises. The integration of the development of the township and town enterprises and the application of science and technology will break a new path which will conform with the national situation of China. Therefore, if we take the integration of the development of the township and town enterprises and the application of science and technology as our long-term basic policy, we will certainly achieve very good results in the future." Later on, Comrade Zhao Ziyang again wrote on another report submitted by the State Science and Technology Commission: "This is a major measure which merits our attention. I suggest that great support should be given to it. The report's demands are not high. I hope that the report's demands can be fully satisfied." "Science and technology should serve the rural economy. Only by relying on science and technology will it be possible for the rural economy to be further developed. This should become an important principle in the future. Science and technology must serve the rural economy. The "spark" program put forward by the State Science and Technology Commission is a good proposal." Therefore, we can see that without the reform, there would have been no "spark" program.

#### A New Plan Which Conforms With China's National Situation at the Initial Stage of Socialism

Our country is still at the initial stage of socialism. Our fundamental task at the initial stage of socialism is to develop the productive forces, shake off poverty and backwardness, and gradually turn our country from an agricultural country with a big agricultural population basically engaged in manual labor into a modern industrial country with a big nonagricultural population. Initially, the "spark" program was formulated on the basis of the realistic situation of our country and was aimed at developing the social productive forces. In the course of

the implementation of the "spark" program, the "spark" program has demonstrated the following three outstanding characteristics.

The first characteristic is that the "spark" program does not blindly pursue "long period, high demands, and future results" (that is, a long period of development and research, high demands on technology, and future results), but lays stress on the building of technological projects which are of "a shorter period and which are appropriate and capable of yielding quick results." "A shorter period" refers to a shorter period of development and research; "appropriate" refers to conformity with the present standard of rural productive forces and management; and "quick results" refers to quick results in technological research and development. The situation over the past 2 or 3 years shows that it has taken about 2 years to build the majority of the projects of the "spark" program. The construction of a small number of the projects of the "spark" program was completed within one year. And immediately after these projects were built, they began to yield good economic results. However, our stress on the building of the projects which "need a shorter development period, conform with the standard of rural productive forces and management, and can bring quick results" does not mean that we are eager to achieve quick success and instant benefit. The actual results yielded by the "spark" program over the past few years have given a convincing answer to this question. In fact, it is the building of the projects which "need a shorter development period, conform with the standard of rural productive forces and management, and can bring quick results" that has enabled the "spark" program to demonstrate its outstanding characteristics and strong vitality.

The second characteristic is that the "spark" program conforms with actual needs of our country and provides timely help to the development of the rural economy. The "spark" program is a plan which is aimed at developing the rural economy by relying on technological development. The "spark" program is not only aimed at pushing forward technological development but also aimed at meeting the needs of the economic and technological development in the rural areas and meeting the actual need of the people's daily life. Most of the projects built over the past few years are aimed at developing labor-intensive products, the brand, quality, and special products which are badly needed on the market, the products which are needed by big industries, the planting and breeding industries which can provide nonstaple food to the big and medium-sized cities, and the skills, technologies, and equipment which can help save raw and processed materials. Specifically speaking, the projects of the "spark" program can be divided into the following five categories: First, the projects aimed at developing the technologies for producing, storing, transporting, and processing farm and sideline products; second, the projects aimed at producing the building materials, some mineral products, and the technologies needed by the primary processing industries; third, the

projects aimed at developing new light industrial products and technologies; fourth, the projects aimed at developing various types of equipment; and fifth, the projects aimed at pushing forward with the regional and overall development of our country. The technological development carried out in these fields has yielded gratifying results and has greatly pushed forward the agricultural production and improved the living standard of the broad masses of the peasants.

The third characteristic is that the "spark" program relies on a new method of investment to arouse the enthusiasm of the whole society in raising funds to build its projects. The new method of investment is that central finance allocates only a small amount of funds as the guiding funds to attract society and all walks of life in society to raise funds to build the projects of the "spark" program. Over the past 2 years, a total of 5 billion yuan has been raised for the building of the projects of the "spark" program, among which the funds allocated by central and local finance amount to less than 500 million yuan and the remaining funds are bank loans and the funds raised by the people themselves. At present, the ratio between government investment, bank loans, and the funds raised by the people is 1:4:5. Facts have shown that the more funds people can raise, the more effectively the funds are used, and the better economic results the funds can produce.

#### **An Undertaking of Realistic and Long-term Significance**

The realistic and long-term significance of the "spark" program can be seen in the following aspects:

The "spark" program can help to effectively apply science and technology to the development of the rural economy. Under the original scientific and technological structure, science and technology were divorced from production. Therefore, scientific and technological achievements could hardly be applied to the development of the rural economy. The "spark" program forms a bridge between cities and rural areas, between industry and agriculture, between science and technology and production, and between scientific research and technological development and the application of scientific and technological achievements so that science and technology can be popularized in the rural areas and can become a pillar in the development of the rural economy.

The "spark" program can help to turn the cities and the rural areas into an organic whole. In the course of their industrialization, all the economically developed countries experienced the process of urbanization one after another. The capitalist countries realized their urbanization by forcing the peasants to become bankrupt and to enter the cities. As a result, agriculture shrank and the cities expanded. Our country has a population of 1 billion, of which 800 million are living in the rural areas. Our country's socialist system and national situation have determined that we cannot take the road taken by the capitalist countries in this regard. The experiences

we have gained in some coastal areas of our country tell us that to greatly develop township and town enterprises and small and medium-sized local enterprises and to develop small and medium-sized cities and small towns in all the rural areas of our country might be an especially effective way to turn China's cities and rural areas into an organic whole. The "spark" program has enabled the township and town enterprises and the rural industries to be integrated with the qualified personnel, technologies, funds, market, and other advantages of the big cities and to establish relations with big industries so as to reduce their operational risk, increase their development stability, and push forward with the self-transformation of the big cities as well. Thus the "spark" program has created conditions for the gradual reform of the economic structure which separates the cities from the rural areas and for the rational readjustment of the urban and rural economic patterns. The "spark" program is also conducive to the mutual promotion and coordinated development between the cities and the rural areas and between the big industries and the township and town enterprises.

The "spark" program can push forward with the transfer of the surplus labor from the rural areas. How to transfer the surplus labor from the rural areas is a major social question faced by all the developing countries. Along with the development of production, the problem of surplus labor in the rural areas has become more conspicuous. That the township and town enterprises have been developing healthily by relying on science and technology has opened a broad path for the transfer of the surplus rural labor to the nonagricultural sector. According to 1986 statistics, some 79.3 million people were employed by the township and town enterprises, accounting for 21 percent of all rural labor. In 1987, some 85 million people were employed by the township and town enterprises. Now, these people have formed a huge nonagricultural labor army in our country. By relying on science and technology, the township and town enterprises with flexible operational mechanisms will certainly develop faster and better and will certainly absorb more surplus rural labor in the future. It is estimated that by the end of this century, the township and town enterprises of our country will employ a total of 170 million to 200 million surplus rural laborers, which will account for some 34-40 percent of the entire rural labor force of our country at that time. By that time, fundamental changes will have taken place in our country's industrial structure, and our country will have basically realized the strategic transfer of its surplus rural labor.

The "spark" program can push forward with the development of intensive farming and economies of scale in the rural areas. Our country is a big agricultural country with a big population. However, our country's per capita cultivated land, energy, water resources, and agricultural materials and funds are seriously insufficient. Uneconomic practices and serious waste can be found everywhere in our country's production. The "spark" program

is aimed at the proper disposal of resources, technologies, funds, market, labor, and other essential elements of production, raising the technological standard and management standard of production, raising the utilization rate and transformation rate of goods and materials, and gradually turning the rural economy from an economy stressing extensive farming into an economy stressing intensive farming. The operational structure stressing household operation is presently being implemented in the rural areas of our country. The implementation of such an operational structure has greatly liberated rural productive forces. However, along with the development of the rural commodity economy, although such scattered small-scale operations run less risk, it is impossible for them to have quick access to market information, so that their products will lack competitiveness on the market. At present, the development of some economies of scale has been placed on the agenda of some areas where the commodity economy is better developed. The "spark" program can start a "prairie fire" within a certain scope through the radiation role played by its projects so as to establish some economies of scale and increase the economic results of the economies of scale.

#### **Sticking to the "Spark" Program as a Long-term Basic Policy**

The 13th CPC National Congress and the 7th NPC put forward new demands on the implementation of the "spark" program. We must, on the basis of the achievements and experiences we have already gained, resolutely carry forward the implementation of the "spark" program so as to enable the "spark" program to play a greater role in revitalizing the rural economy.

**It is necessary to develop a batch of key products which can help to create economies of scale.** Without a certain economy of scale, it will be impossible for us to establish any industries, develop our adaptability to change and capability of coping with emergencies, and establish a real commodity economy. Therefore, we must first select and develop a batch of key products in the light of the actual situation concerning local resources, technological conditions, and work basis, carry out the technological development concerning these products, form economic combines or groups, and try to enable the output value of each of these industries to reach millions of yuan and even exceed 100 million yuan and form a relatively strong "atmosphere."

**It is necessary to build a batch of export-trade demonstration sites which are capable of creating foreign exchange.** Our country is rich in labor resources, which are mainly in the rural areas. Compared with the labor in foreign countries, our country's labor is relatively cheap. Therefore, we must make full use of this advantage to develop labor-intensive products, carry out the processing of farm products, farm and sideline products, carry out the rough machining of mineral products, and carry out the production of building materials so as to enable more of our products to enter the international market to earn

more foreign exchange. In the meantime, we should build a batch of earning-foreign-exchange-through-export demonstration sites in a number of selected areas which have a relatively strong technological foundation and are rich in resources so as to attract a large number of scientific and technological personnel to work in these demonstration sites, realize the unity between science and technology, production, and trade, raise the technological standard of our export products, and contribute to our country's participation in competition on the international market.

**It is necessary to establish a batch of technology-intensive zones in the course of the implementation of the "spark" program.** We must continue to develop the intellectual and financial resources of the big and medium-sized cities, strengthen the role played by the big and medium-sized cities, and establish and develop technology-intensive zones in some selected and better developed areas around the big and medium-sized cities in the course of the implementation of the "spark" program. We must make comprehensive plans according to the goal of the "spark" program and the goal of achieving coordinated regional development, pay particular attention to the development of key industries and the development of the technologies needed by the key industries, strongly carry out technological development, and establish economies of scale which can play an exemplary role in the regions concerned so as to promote the development of the rural economy.

**It is necessary to manage well a batch of comprehensive development sites in some mountainous areas and coastal areas.** The mountainous areas of our country account for about 70 percent of the total area of our country. Our country's coastline is more than 18,000 km long. Our country has nearly 6,000 islands. We must sum up our experiences in carrying out the various forms of experiment of a variety of characteristics and concentrate our efforts on the development of the comprehensive projects which can be carried out independently by various localities, need less investment but can bring quick results, can produce salable products, and can benefit tens of thousands of households. We must provide all types of guidance and carry out all types of experiment in selected spots in the light of actual natural conditions and local resources and by proceeding from actual local conditions.

**It is necessary to develop complete sets of technology and equipment which are needed by the township and town enterprises.** At present, the rural areas and the township and town enterprises only have some backward equipment. A lot of equipment presently used by the township and town enterprises is equipment which is no longer used by the big enterprises. Moreover, very often, some new equipment is of poor quality or has unsuitable functions. Therefore, the development of equipment must be carried out in batches and must be commercialized. We must also establish some equipment development groups. The improvement of the technological

standard and quality of equipment of the township and town enterprises will certainly play an important role in the course of the industrialization of our country. However, the development of the various production lines for producing complete sets of equipment will take a relatively long time. Therefore, we must develop the various production lines for producing complete sets of equipment while implementing other plans (such as the scientific and technological development plan, the technological transformation plan, and so on) so that we will be able to "popularize scientific and technological achievements, develop a number of key projects, and tackle a number of major technological problems at the same time."

**It is necessary to attract more scientific and technological forces to take part in the implementation of the "spark" program.** Over the past 2 years, more and more scientific and technological personnel have taken part in the implementation of the "spark" program. This situation is very good. Shangluo Prefecture of Shaanxi Province used to be a poor old liberated area. In the course of implementing the "spark" program, Shangluo Prefecture strengthened its lateral economic associations, adopted measures to attract scientific and technological personnel to come to work in the mountainous areas, formed scientific and technological work teams to popularize science and technology in the mountainous areas, implemented the technology contract system to push forward the process of popularizing science and technology in the mountainous areas, adopted preferential treatment to encourage scientific and technological personnel to come to work in the mountainous areas, and sent scientific and technological personnel to work at the grass-roots level to enable the "spark" of science and technology to become a "prairie fire" in revitalizing the rural economy. As a result, Shangluo Prefecture has attracted some 1,590 scientific and technological personnel to come to work in its mountainous areas. Over the past 2 years, Shangluo Prefecture has built a total of 79 "spark" program projects, of which 92.4 percent have yielded good economic results, and some 40 projects produced good economic results in the year they were built; Shangluo Prefecture has developed a total of more than 70 new products, some of which have already successfully entered the international market. The implementation of the "spark" program has reduced the number of poor areas in Shangluo Prefecture from 25 to 8 and has enabled more than 300,000 people to shake off poverty. In order to fully develop the role of the scientific and technological personnel in the cities and in the units overstaffed by scientific and technological personnel, we must stick to the reform and relax our policies so as to attract and encourage more scientific and technological personnel to work in the small and medium-sized enterprises, the township and town enterprises, and the rural areas to carry out such activities as contracting enterprises, running leased enterprises, setting up new enterprises, and regularly providing technological services to enterprises. The relevant government departments should formulate preferential policies regarding the

remuneration and the assessment of the professional and technological positions of the scientific and technological personnel, help the scientific and technological personnel to dispose of their worries, and provide various services to the scientific and technological personnel to make them feel at home in the rural areas. In the meantime, great efforts must be made to train a large number of rural scientific and technological personnel who are allowed to leave their hometowns but should still work in the rural areas. A large number of scientific and technological personnel taking part in the rural economic construction of our country is a great event of profound and long-lasting significance in the historical change in our country. We firmly believe that under the banner of the "spark" program, more and more scientific and technological personnel will take part in the rural economic construction and will certainly play an important role and make important contributions to the development of our country's rural economy.

### **My Views on a Solution to the Grain Problem in China**

HK2506070188 Beijing HONGQI [RED FLAG] in Chinese No 11, 1 Jun 88 pp 7-11

[Article by Yuan Chongfa (5913 1504 3127)]

[Text] Over the past more than 30 years, notable achievements have been made in China's grain production. In 1987, grain output reached 400 million tons, which was an increase of 250 percent over 1949, and the per capita consumption of grain rose from 209 kg to 374 kg. Thus the problem of food and clothing was basically solved and the demands of the masses of people for further improving their livelihood were partly satisfied. But generally speaking, China is still comparatively backward in its agricultural productive forces. The problems of inadequate grain production and imbalance in supply and demand have still not been solved. The long-term slow development of China's agricultural production has much to do with the trammels of the old structure. An important reason for the stagnation in grain production in recent years is that clashes and contradictions have appeared in the course of replacing the old structure with the new. Therefore, to solve the grain problem it is necessary to deepen reforms. Moreover, it is also necessary to attach importance to the study of long-term development strategies so that correct production and consumption policies can be adopted. The following are my views on these questions.

#### **1. An Analysis on the Shortage in Grain Supply**

In the period immediately after the founding of the state, under the specific historical conditions and the international environment at that time, China adopted a highly centralized economic structure and the strategy of giving priority to the development of industry, especially heavy industry. At the same time, the funds for industrial development were accumulated through the exchange of industrial and agricultural products at unequal values.

This strategy and its corresponding structure were of important significance at that time for mobilizing the limited resources in our country and establishing a basic industrial system as soon as possible. However, they also brought about disproportionate development in both the cities and the countryside. With the development of the economic situation, this contradiction also grew day by day. From 1949 to 1979, the proportion of China's agricultural output value in the total industrial and agricultural output value dropped from 70 to 35 percent, but the proportion of rural population in the total remained at over 80 percent for a long time, and that of agricultural laborers in the total number of laborers was maintained at more than 70 percent. This was a seriously distorted urban-rural structure. It brought about the following two problems. On the one hand, as the large agricultural population and labor force were forced to work together on the limited cultivated land, unable to move away with the development of industry, agricultural labor productivity could not be rapidly increased and the commodity rate of agricultural products was very low. In addition, as a result of the population growth, the per capita agricultural net income continued to drop. The peasants' standard of living could not be improved, and in some places there was even a decline in this respect. Thus, the peasants' enthusiasm in production was greatly dampened. Therefore, although conditions were greatly improved, agricultural production was not well developed. On the other hand, by providing urban residents with low-priced food and providing city industries with low-priced agricultural products and raw materials, the low cost of industrial production and its profits were ensured. But the high-speed development of industry resulted in an increasing demand for agricultural products. Thus, there appeared a sharp contradiction between the suppressed agricultural production and the increasing demand for agricultural products. In order to increase the supply of agricultural products, the state allotted large sums of money for the construction of basic agricultural facilities. However, since this investment was not directly linked with the personal interests of the peasants, it could not mobilize the initiative of the peasants and could not help fundamentally solve the problems. Since agricultural profits formed a large part of financial revenues and the financial burden for supporting agriculture became heavier, the exchange of industrial and agricultural products at unequal values was further intensified. In short, before reforms started, China's rigid structure and the strategy and policy of one-sidedly developing industry had cut the economic ties between industry and agriculture and between town and country. The development of agricultural productive forces was restricted and the demand of urban residents and industry for agricultural products could not be effectively controlled. This was the main reason for the short supply of agricultural products, including grain.

Since the 3d Plenary Session of the 11th CPC Central Committee, the system of contracted responsibilities with payment linked to output has been widely implemented in the countryside. The peasants have greater

decision-making power in production and management. At the same time, the purchase prices of agricultural products have been raised by a big margin. In order to help the peasants readjust the production structure, the state has also increased the import of grain. All this has greatly mobilized the enthusiasm of the broad masses of peasants. Through the efforts over the past few years, great changes have taken place in the rural economy. In 1984, the total grain output of our country reached more than 400 million tons and the per capita consumption of grain reached 396 kg, representing increases of 33.65 and 24.14 percent respectively over 1978. There have also been great increases in other major agricultural products. Facts fully show that reforming the rigid structure and readjusting the irrational policies is the only way out for us to extricate ourselves from the difficult agricultural situation.

But since 1985, a situation of stagnation has reappeared in grain production, and, again, there has been a shortage of grain. How should we look upon this new situation then?

First, there is a fundamental difference between the shortage of grain over the past 2 years and the shortage of grain before reforms were started. In the past, the per capita consumption of grain was only 250 to 300 kg. Quite a few people were unable to solve their problems of food and clothing. The main expression of this shortage was the shortage of rationed grain. In recent years, the per capita consumption of grain has reached more than 370 kg. Except for a few poor areas, the problems of food and clothing have basically been solved. Now the main expression of the shortage is the shortage of fodder grain and grain for processing. Most complaints come from the cities, especially the large cities, where the per capita consumption of grain has reached more than 500 kg. Their problem is to change the food structure and increase the level of consumption while having enough food and clothing. This is a problem different from the shortage of grain before reforms started. It shows that China's agriculture, which has been propelled by reforms, has been developed to a new stage.

Second, since our reforms have just been started, some old structures have not yet been fundamentally changed. In the course of replacing the old structures with the new, all kinds of conflicts and contradictions have continuously emerged. This is an important reason for the shortage of grain in recent years. For example, compared with 1984, grain output dropped by 28.2 billion jin in 1985. The main reason was that large areas of grain fields were turned over to other crops and both material and labor investments in grain production were reduced. The peasants did this because it was very difficult for them to sell grain in 1984. In some major grain production areas, grain prices in rural markets were even lower than the purchase prices of the state. Moreover, the contract purchase prices set by the state for 1985 were lower than the peasants had expected. Thus, the information the peasants had received from the market was that grain

production was not good to them. Naturally, they shifted their investment to the production of other, profitable crops or to other fields. This was typical conduct of commodity producers. It shows that reform had linked the peasants more closely with the market. Problems then emerged, not because of the peasants but because of the incorrect market information. Under the condition of the commodity economy, an important function of the state in regulating and controlling economic affairs is to stabilize and control market fluctuations and protect the enthusiasm of the producers through effective means and organizational systems. In 1984, when it was difficult for the peasants to sell grain, the central authorities realized that it was necessary to protect the peasants and repeatedly requested the grain departments to purchase more grain from the peasants, not allowing them to refuse to purchase. If this request had been realized, grain prices would have been kept relatively stable, and there would not have been a sharp decrease in grain output in 1985. However, as the structure of state monopoly of purchase and marketing of grain had basically remained untouched, in order to protect the interests of urban residents, after increasing the purchase prices, the selling prices of grain remained unchanged. As a result, the burden on state finances became heavier and heavier. The more the grain departments purchased, the greater were their losses. Thus, their enthusiasm was also dampened. In addition, due to other reasons, such as insufficient storehouses, many areas did not act as instructed by the central authorities and purchase more grain from the peasants, but even sold tens of billions of jin of grain at low prices. As a result, the market price of grain went even lower. Naturally, the peasants' enthusiasm in grain production was greatly dampened and the demand by the cities for grain consumption was further stimulated, aggravating the tense situation in grain supply. It is thus obvious that the shortage of grain after 1985 was not caused by reforms but was, on the contrary, a result of not carrying out reforms in a thoroughgoing way. It shows that the policy of state monopoly of purchase and marketing of grain cannot suit the further development of agriculture and that the current structure of the state grain departments cannot play an effective role in regulating the market. All this can be solved only through deepening reforms. Of course, there are also some new problems for the peasants, and the achievements of reform should be further perfected and developed.

## 2. Endeavor To Create Conditions for Realizing Agricultural Operations on a Large Scale

In order to alleviate the contradictions between grain supply and demand, it is necessary to work hard to develop production and increase supply. On the other hand, it is necessary to appropriately control demand so that it can match the actual capability of supply. At present, a major difficulty in the field of supply is that it does not have an effective mechanism of agricultural development which is capable of continuously assimilating new technologies and new material goods. As excessively large numbers of people are in the rural areas, each

peasant household in our country has only half a hectare of cultivated land on average, which is much smaller than the scale of operation of the peasants in Britain, West Germany, and Japan. Only very small quantities of grain and other agricultural products produced on such small areas of land can be sold as commodities after satisfying the needs of the peasants themselves. For this reason, the peasants do not have a strong idea of exchange. However, the state has to purchase grain from the peasants in order to increase grain storage. Under such circumstances, if the state makes the purchases at low prices, the peasants' interest in absorbing modern technology and new material goods to expand grain production cannot be aroused; if the purchase prices are slightly increased, the peasants may take no notice; but if the prices are greatly increased, since they may go all out and vie with each other to grow and sell more grain, the state may not be able to cope with it. In this regard, a key problem is that our agricultural development is still in a stage of traditional and small-scale production, in which various productive elements are scattered. Therefore, it is necessary to gradually change the mode of production, develop commercialized farms, and realize professional and modern operations on a large scale.

In developing the commercialized farms, a most pressing task is to transfer labor forces. It is estimated that in China's rural areas, the number of laborers is increasing by 7 to 8 million a year, or will increase by 100 million by the end of this century. Only with the increase in the labor force arranged in nonagricultural production fields can the current scale of agricultural operations be maintained. But if the scale of agricultural operations is to be expanded, more of the labor force should be shifted to other production fields. This is a very difficult task. We must make great efforts and open up more channels. First, it is necessary to encourage the steady and fast development of township and town enterprises, which are absorbing more than 8 million laborers a year at present. Second, as the speed of urbanization in our country is much lower than that of industrialization, it is necessary to speed up reforms in medium-sized and small cities. It is necessary to smash the barriers between town and country and allow the peasants to come to cities to engage in commercial business, to work, and to develop tertiary industry. In addition in the countryside, it is also necessary to encourage the peasants to open up mountain and water areas and develop breeding, processing, horticulture, and other businesses, which can help absorb large numbers of laborers and reduce pressure on the cultivated land.

To promote the transfer of labor and foster the development of agricultural operations on a large scale, it is necessary to carry out reform of the land system in the rural areas. At present, land is a means of production and a kind of social welfare in the rural areas. The peasants are reluctant to give up the land even if they are engaged in nonagricultural production. If things go on like this, there will not be a fundamental change in the situation of scattered land contracts. In the future, the form of

insurance by material means should be replaced by the social insurance system in the form of money. At the same time, it is necessary to establish a well-managed and well-controlled land circulation market in accordance with the demands and laws of the circulation of main productive elements so that more and more cultivated land can be managed by capable farmers and good hands at agricultural production.

The state should endeavor to create a good environment for realizing large-scale agricultural operations. To extend the scale of agricultural production, investments should be increased. However, it is difficult for the peasants to make all the investments without the help of the state. Over the past few years, in the state budget, the investment in agriculture has been continuously dropping, and the scale of capital construction for agriculture has been reduced. If this situation is not changed, the position of agriculture as the foundation of the national economy will not be guaranteed and there will be no necessary material conditions for large-scale agricultural operations. Apart from providing funds, the state must also make good arrangements in the production of chemical fertilizer, plastic sheets, and suitable agricultural machinery, and promote the study, development, and popularization of various technologies for improving varieties, cultivation, and storage. Moreover, as high-speed industrial development in the cities usually brings about the swelling of demand for grain and other agricultural products, the state must also proceed from the actual bearing capacity of agriculture and control and regulate the speed of development of urban industries, especially some ordinary processing industries.

### 3. Adopt Various Measures To Correctly Guide Consumption

Beginning from the period of the Sixth 5-Year Plan, both the food and consumption levels of urban and rural residents have been increasing rapidly. Changes have begun to take place in the structure of food. Evidence of this is that the consumption of animal products and wines has been increasing rapidly. In 1985, the per capita consumption of grain (unprocessed food grain) in our country was 274 kg, which was an increase of 8.3 percent over 1980; that of meat, poultry, eggs, and fish was 26.15 kg, up 44 percent; milk, 2.2 kg, up 132 percent; and wines, 7.7 kg, up 123.2 percent. If meat, poultry, eggs, and milk are converted into corresponding amounts of grain, together with the rationed grain, the per capita consumption of grain in 1985 was 388 kg. In 1986, this consumption rose to 391 kg. Moreover, in 10 provinces and municipalities of our country, the per capita grain consumption of 36.2 percent of the population reached over 400 kg. Of them, the per capita consumption of grain by the nonagricultural population in Beijing, Tianjin, and Shanghai was 523 kg. In these years, the speed of growth of grain consumption is much higher than that of the growth of grain output. This is an important reason

for the shortage of grain. The excessive growth of consumption has not only caused fluctuation in the market but has also brought about great difficulties in the deepening of reforms and the steady growth of the national economy.

One reason for the increased consumption of food is that our food supply system has certain welfare aspects. Over the past more than 30 years, a policy of equal distribution and low-price selling has been adopted in the supply of agricultural and sideline products in cities and towns. This is entirely necessary under the condition of low wages and shortage of agricultural products. However, after the problem of food and clothing is solved, if foodstuffs continue to be supplied at low prices, the excessive consumption of food by urban residents may be stimulated. Since the government provides large sums in subsidies, those who consume more food benefit more from government subsidies. As a result, not only has the consumption of food by city and town residents increased, but also the consumption by organizations in society has rapidly expanded. To compete with factories, mines, and enterprises, government organs and institutions are providing more and more food subsidies for their staffs. Extravagance and waste have become common practices in society, while the virtues of hard work and thrift are gradually dying out.

The food subsidies for consumers have become a great burden on the state. In 1978, the subsidies provided by the state for the price differences of grain, oil, meat, poultry, fish, eggs, and other foodstuffs totaled 4.582 billion yuan, but they rose to 21.766 billion yuan, or an increase of 375 percent, in 1986. However, the revenues of the state only increased by 100 percent. The percentage of the subsidies in the total expenditure of the state rose from 4.1 percent in 1978 to 9.3 percent in 1986. This greatly aggravated the tense situation of financial distribution. Many construction projects could not get the necessary funds for their development and the long-term and steady development of the national economy was affected.

China has a large population but insufficient cultivated land and backward agricultural productive technologies. For this reason, it is especially necessary for it to conscientiously control the demand for and consumption of food. Even if agricultural production is greatly increased in the future, if consumption is not controlled, the problem of supply falling short of demand still cannot be solved. This has been proved by the developments over the past few years. In the Soviet Union, although its per capita consumption of grain is 100 percent higher than our country, the demand for and supply of food still cannot be balanced. The reason is also that the government has adopted a policy of high price subsidies for agricultural products, which stimulates consumption. In China, through our reforms in the past few years, as the income of urban residents has also rapidly increased, they have become more capable of bearing the relaxation of control over food prices. With

the constant expansion of the range of market regulation over the past few years, what people are capable of bearing psychologically has also been increased. Thus, we must begin to consider the question of how to gradually reduce or even abolish the price subsidies for foodstuffs. In the initial stage of relaxing control over prices, to reduce fluctuations in society, the state may continue to provide certain major subsidies but must change them into open subsidies, so that food prices can reflect the costs of production and the changes in supply and demand. In the future, the state may consider providing subsidies or relief only to the low-income social strata while offering necessary guidance for the processing industries using grain as raw material and the daily consumption of both urban and rural residents through taxation and other economic means and some administrative measures. For example, it may adopt measures to control the growth in the consumption of meat and wines and the growth in organizational consumption and apply sanctions against phenomena such as entertaining guests and eating and drinking extravagantly at public expense and other practices of extravagance and waste. In addition, it is necessary to gradually change the structure of payment of urban residents. At present, city and town residents are enjoying considerable subsidies provided by the state in housing, water and electricity supply, medical care, communications, telecommunications, education, and cultural life. They do not have to spend much money in all these fields. Thus, when their income is rapidly increased, they naturally spend more money on the purchase of durable consumer goods and food. The commercialization of housing and reform of the medical and health system will help open up more fields for people to spend their money and reduce the pressure on food supply.

#### 4. Resolutely Promote and Deepen Reforms in the Sphere of Circulation

The sphere of circulation is the link between production and consumption. The messages it transmits have a great influence on both producers and consumers. In the period immediately after the founding of the state, we adopted the systems of unified state purchase and marketing of industrial products and state monopoly for purchase and marketing of agricultural products. These systems were adopted in light of the realities at that time, and they played a great role in ensuring the construction of major projects and making things convenient for the people. But the situation changed later, and we continued to implement the same systems. As a result, things became more and more rigid. Through our reforms over the past few years, the system of unified state purchase and marketing of industrial products has basically been abolished and the control over the prices of most agricultural products has been relaxed. But those of grain and other major agricultural products are still rigidly controlled. This is extremely harmful to the development of grain production. On the one hand, as the prices of large numbers of industrial products are increasing, the costs of agricultural production have also been

raised. But since the purchase prices of grain and other major agricultural products are still rigidly controlled and cannot be changed along with the changes in production costs, the comparative benefits of grain production have dropped. On the other hand, due to the relaxation of prices of agricultural products other than grain, the comparative benefits of grain production have also dropped when compared with other agricultural products. Thus, the peasants' enthusiasm in grain production has been seriously damped. If the control over grain prices is not relaxed, it will also be harmful to the control over consumption and will add heavy burdens to the state. It seems that we must lose no time in carrying out reform of the grain purchase and marketing structure step by step. This is an important question in the current reforms in the sphere of circulation of agricultural products.

The orientation of reform of the grain purchase and marketing structure is to establish a market regulation system with the state participating in the regulation and control [tiao kong 6148 2235] and the management of the market, that is, a new mechanism of the state regulating [tiao jie 6148 4634] the market and the market guiding production. Some people hold that under the condition that the per capita consumption of grain is still under 400 kg, market regulation will lead to inequality in the distribution of grain. I do not agree with this viewpoint. In our country, the equality in grain distribution is not entirely decided by the characteristics of grain products but is mainly decided by the socialist system of distribution. A fair mechanism of grain distribution should be supported by a comparatively fair system of distribution of income. As our distribution system does not deviate from the socialist principle, there is no reason for us to worry about the disparity in grain distribution. Of course, a higher degree of stability is required in the supply of food, as the demand in this respect is comparatively stable compared with the demand for other commodities. However, since fluctuation often appears in grain production under the influence of various factors, there will certainly be contradictions between supply and demand. Provided market organization is improved and the government's capability in regulation is strengthened, a relative stability in grain supply still can be ensured. In other words, the particularity of the contradictions between supply and demand in food cannot become a reason for not carrying out market regulation in respect of grain production and consumption.

At present, the most pressing task for reform of the grain purchase and marketing structure is to gradually relax control over the selling price. Since 1985, the state has adopted the "double-track system" on grain prices in order to explore a path for reform. Practice shows that the low-priced purchase of grain is closely related to the low-priced marketing. It will be very difficult to carry on reforms if attention is paid only to the form of purchase, while that of low-priced subsidized marketing remains unchanged. This is because even slight changes in the

purchase price may bring about great fluctuation in the financial expenditure. To achieve a balance in financial affairs and control the growth of subsidies for price differences between purchase and marketing, the governments at various levels cannot but adopt a series of measures such as exercising rigid control over grain prices, making the method of selling at negotiated prices a mandatory task, setting additional tasks for fixed-quota purchase, and closing local markets. Although these measures have been criticized as being unreasonable, they cannot be changed in accordance with man's will. A feasible method to free ourselves from the difficult position is to make up our minds to gradually reform the system of low-priced marketing and adhere to the principle of having purchase and marketing related to each other. In other words, while increasing the purchase prices of grain, it is necessary to gradually increase, or relax control over, the marketing prices, so that the increased purchase prices can be digested and restrained by the consumers. In this way, as there are no more financial burdens, the state will be able to change its passive situation and concentrate its strength on the regulation and control [tiao kong 6148 2235] of the grain market. Our country is a large country. The situation varies in different places. It is difficult for us to relax control over the marketing prices of grain all at once and in an all-round way. It is necessary to adopt a policy to enable various provinces and regions to seek every possible opportunity and take effective measures in light of their own realities to reduce low-priced marketing. Now, some provinces and regions have already put forth such demands or are considering such moves. It is necessary to allow them to make independent decisions.

When the state carries out regulation and control over the market, it is necessary to establish an organization to carry out inverse regulation. This organization for regulating the in and out of grain should not take earning profits as its purpose. When there is an increase in grain output and supply exceeds demand, it should take in large quantities of grain so that grain prices may not go down and the peasants' enthusiasm may not be damped; when there is a shortfall in grain output and supply falls short of demand, it should sell grain in large quantities so as to curb the trend of speculation and protect the interests of consumers. To this end, it is necessary to establish a special fund and build sufficient warehouses to store grain. In the past few years, a reform has been carried out in the state-run grain departments with the orientation of independent management and assuming full responsibility for their own profits and losses. This is contradictory to the demand for regulating the market. As a result, it often happens that at some critical moments, the state does not have an organizational guarantee and material means for regulating and controlling the market. It seems that in the future, reform in the state-run grain departments should be reconsidered.

**Exploring Ways of Setting Up A Rural Social Security System with Chinese Characteristics**  
**HK2806055188 Beijing HONGQI /RED FLAG/ in Chinese No 11, 1 Jun 88 pp 12-14**

[Article by Cui Maifu (1508 0035 1133)]

[Text]

**I**  
**The exploration of a rural social security system with Chinese characteristics is a supporting project in the rural reform.**

Whether in the interests of economic development or social progress, it is necessary to bring both the dynamic mechanism and the stabilizing mechanism into play. The two mechanisms are mutually conditional and interactive. Now China is at a stage when the old and new structures coexist and the transition from the old structure to the new one is under way. The country is now switching from a highly centralized mode of product economy characterized by planned production and distribution to a mode of planned commodity economy. Some unstable factors will inevitably emerge in a period of reform like this. These factors, if not eliminated, certainly will affect the in-depth development of reform. For example, the introduction of the market mechanism and the implementation of the principle of survival of the fittest will widen the gap in income; due to the low productive force level, the contradiction between supply and demand can hardly be solved within a short time; and the readjustment of the interests structure does not necessarily benefit everyone. Therefore, in order to smoothly fulfill our goal and to ensure a steady transition to the stage where the new structure plays the dominating role, we must on the one hand seek a form of transition involving less risk and, on the other, make sure that the role of the social stabilizing mechanism will be brought into full play.

Social security is an important part of the social stabilizing mechanism. It is composed of four types of work, namely, social insurance, social relief, social welfare, and special care for martyrs, servicemen, and their family members. Social security denotes a certain amount of material aid that laborers or all members of society can obtain from the state, society, or departments concerned when they get old, suffer from illness, are unable to work, or encounter other difficulties in their everyday life. At the present stage, social security in rural China mainly assumes its primary form—social cooperative insurance. Social relief denotes aid that the state provides to those who suffer from natural disasters or accidents and to impoverished people. Social welfare consists of material aid and welfare facilities that the state extends to some special recipients, such as the disabled and members of society who have no relatives and cannot support themselves. Special care service denotes a kind of special

compensatory guarantee that the state and society offer to disabled servicemen and family members of revolutionary martyrs and servicemen.

Social security taps the resources of all sectors of society to regulate social relations and behavioral relations and to ensure the order and stability of society. Man's first demand is survival and subsistence. Social security is exactly a security system which provides members of society with a guarantee of the basic right to live based on the law. Social equity is one of the goals that people are striving for. It is through a reasonable redistribution of income that social security is to regulate social contradictions arising from disparity in income; and it is based on the principle of equal rights for equal duties that social security is to guarantee people's basic subsistence. Social security is to regulate people's behavior on a higher plane, making people feel that what they obtain is not a favor or charity. It reflects the people's rights and the state's duties. For a rather long period of time we maintained a low level of collective security on a production team basis. Now this function has been weakened. In the wake of the in-depth development of rural reform, it is mandatory to explore and establish a new rural social security system with Chinese characteristics. This should be taken as a supporting project in the whole rural reform.

Some scholars abroad maintain that primarily there are two choices of social security in China and thus two prospects: the first possibility is that the reform of the economic structure will give an impetus to the reform of the social security system and thus give birth to a "new Chinese-type social security network." In other words, while some people are getting rich first, China will take measures to guarantee the basic living conditions for the broad masses of people, minimize the excessive disparity in distribution of income, foster factors favorable to social stability, and thus reduce obstacles to reform. The second possibility is that by overlooking the role of the social stabilizing mechanism, China "will be faced with a most profound challenge in the reform," and this will in turn encourage two tendencies: first, the importance of coordination between economic development and social security will be overlooked, so some people will be excluded from the "social security network," which will arouse grievances among some people against the reform; second, in order to ease "deficiencies" in various fields resulting from the reform, a large amount of funds and resources will be appropriated as new "subsidies" and "relief funds" to keep up some people's living standards. As a result, some people will rely too much on social welfare and no longer want to make contributions to society. Although the above is merely a prediction, it merits attention. We must make efforts to explore and establish a socialist rural social security system with Chinese characteristics so as to keep up with the need of the reform which is being carried out in depth as well as with economic and social development.

## II

The exploration and establishment of a rural social security system with Chinese characteristics must be based on the realities of rural China.

Except for a few well-off areas, most rural areas in China are just sufficiently supplied with food and clothing, while some areas still have not shaken off poverty. There are still a certain number of impoverished households which cannot support themselves because of natural disasters, lack of labor force, or other reasons. As a matter of fact, most rural areas in China are not rich or not very rich.

The introduction and in-depth development of the rural economic structure has brought about changes in the production structure and labor force structure in rural areas and expedited the development of the commodity economy there. At present a total of 80 million peasants have already completely or partly switched to non-agricultural production. The development of the commodity economy will inevitably lead to a socialization of the reproduction of labor force. As both the laborers and the business operators develop in the course of competition, there will naturally be a greater risk, and the instability in income will increase as well.

Planned parenthood and the smaller size of the family, which are symbols of social progress, may bring about a problem concerning welfare for the aged. According to statistics, the old population already totaled 50 million by 1982. By 2000 there will be 94 million people above the age of 65 in China, who will make up 8.95 percent of the country's population. By that time the number of children under 14 will be 153 million, accounting for 14.6 percent of the country's population. The problem concerning welfare for the aged resulting from the drastic rise in the dependants-to-population ratio will turn out to be a problem not to be neglected in rural areas.

Due to the long history of feudal society in China, the basic social security form with family as its basic unit, which took shape under the conditions of natural and semi-natural economy, will continue to play a role for a rather long period.

## III

To explore and establish a rural social security system with Chinese characteristics, we must adhere to several principles.

It is necessary to properly handle the relationship between production development and social security. Whether a measure is favorable to development of production must always be taken as a basic criterion in considering everything. And we must also observe this principle in exploring and establishing a rural social security system with Chinese characteristics. It will be a success if social security can dismiss the worries of those

who participate in competition, provide equal opportunity for competition, and create a stable social environment for development of the commodity economy. And it will be a failure if social security hinders development of production, or slips back to the old rut of pure relief and welfare which may encourage the dependent mentality on the part of some areas and some people, and thus help cultivate the vicious cycle of poverty-relief-more poverty-more relief. A solid foundation for social security can be laid down only when the productive forces keep on developing.

It is necessary to properly handle the relationship between social equity and efficiency. The report delivered at the 13th CPC National Congress pointed out: Our policy on distribution is to "bring about social equity while improving efficiency." For the moment we must attach still greater importance to efficiency. Due to the influence of the principle of "large in size and collective in nature," a kind of low-standard social security has been practiced in rural areas in China for quite a long time, dampening the initiative of the majority of people in production and hindering the development of agricultural production. We must be aware, on the one hand, that socialism's superiority cannot be displayed if social equity is ignored; and, on the other hand, that social security can hardly be improved if efficiency is disregarded. We advocate the integration of social equity and efficiency. It is necessary to promote a sense of involvement among members of society and make them feel secure about their subsistence but always bear in mind the pressure of work.

It is necessary to properly handle the relations between the individual, the collective, and the state. Both the state and the collective must play a part in improving social security in rural areas. But, for the time being, neither the state nor the collective can play a major role because both of them cannot possibly give much money. So people in rural areas must mainly rely on themselves for social security and, at the same time, try to give full play to the role of families in social security.

It is necessary to properly handle the relations between areas with different economic development levels in light of the actual circumstances. There is a great disparity between different areas in terms of the degree of economic development. If all the areas adopt the same mode indiscriminately, then some areas will inevitably be forced to go at a pace too fast for them to keep up with while the others be forced to slow down their pace. Similarly, if we ignore the great disparity between different areas in terms of the degree of economic development and if we fail to appropriately fix, according to local conditions, the size of the community as the basic unit for accumulation and allocation of security funds, then egalitarianism and the practice of indiscriminate transfer of resources will inevitably prevail again.

## IV

In light of the above principles and practical experience, in exploring and establishing a rural social security

system with Chinese characteristics, we must never go beyond what the state, the collective, and the individual can afford, but must encourage individual areas to rely mainly on themselves in developing social security, and attach great importance to the family's role in social security.

Every measure taken must suit local conditions. Social security is an ever-developing field where every principle, means, and form adopted must suit local conditions. In impoverished areas, we should focus our attention on the reform of the disaster resistance and relief work and should first of all solve the problem concerning care for those who have no relatives and cannot support themselves as well as ensure food and clothing supplies. In moderately well-off areas, we must promote mutual aid among the masses and develop welfare production [fu li sheng chan 4395 0448 3932 3934] while doing a good job in basic work. As for well-off areas, apart from paying attention to all the work mentioned above, we should also guide the masses in running social cooperative security. All areas should start with those projects that will satisfy the masses' most urgent needs and expand social security in the wake of economic development.

Social security service standard should be gradually raised. Once raised, social security standard cannot be lowered again. Therefore, at the beginning, we should only set a lower standard to fulfill the minimum living requirements. We must act according to our capability and proceed in an orderly way and step by step, without going beyond what the state, the collective, and the individual can afford.

The scope of social security should be gradually expanded. In view of the great disparity in economic development between different rural areas in China, at present we must focus our attention on the establishment of a "community-type" social security system on a township or village basis. It is necessary to organize peasants to develop self-supporting security service on a voluntary basis and expand the scope of social security in the wake of economic development.

It is necessary to raise security funds through various channels. Different areas can raise funds by different means. For impoverished areas, their basic security funds consist of disaster relief funds, relief funds, and allowances to martyrs, servicemen, and their family members granted by the state, as well as financial subsidies granted by governments at different levels. For well-off areas, social security funds should be contributed by the state, the collective, and the individual based on a reasonable ratio. Some amount of social security funds can be secured from township and town enterprises, but, when fixing the proportion of these enterprises' share, it is necessary to take into account the enterprises' income, the nature of social security items, and the proportion of these enterprises' staff members

and workers to the total population of their communities. As for moderately well-off areas, they still should pursue the principle of mutual assistance and mutual aid.

Well-off areas should develop social cooperative insurance step by step. This facility covers welfare for the aged, disaster relief, and medical service. To run this facility we must on the one hand conduct thorough investigations and initiate pilot projects according to local people's acceptance of it; and, on the other, be brave in blazing new trails, make persistent efforts, and attach importance to the masses' practical experience. We have found in every province or region that peasants in some well-off areas have spontaneously run cooperative insurance and thus obtained some valuable experience. But there are also some undesired tendencies that should be brought to our attention. For example, some areas have indiscriminately copied the labor insurance system practiced in cities, and some areas running cooperative insurance are eager to compare and compete with each other regardless of their own conditions. As a result, local authorities in these areas have tended to take care of everything and set excessively high standards for cooperative insurance service. To solve all these new problems, we must convince these areas of the disadvantages of the above practices and make new efforts to find a solution.

**How Is Zhaoyuan County in Shandong Province Carrying Out Its Rural Circulation Reform?**  
*HK2706080188 Beijing HONGQI [RED FLAG] in Chinese No 11, 1 Jun 88 pp 15-18*

[Article by Wang Lingchen (3769 0109 5256)]

[Text] In only a few short years since the implementation of the system of contracted responsibilities on the household basis with remuneration linked to output in China's rural areas, the readjustment of production setup, and the reform of grain purchasing system, fundamental changes have taken place in our organizational forms of production, product mix, and commodity supply. In parallel with all this, some reforms have also been carried out in our circulation field. However, due to the fact that we were comparatively late in carrying out reform in the circulation field in addition to our comparatively slow progress in this regard and some inherent peculiarities of our agricultural production, there exist a series of contradictions between production and circulation, which are mainly reflected in the following five aspects.

1. There are contradictions between diversified production and the unitary function of circulation. Economic structural reform has enabled rural areas to smash the bonds of unitary operation, and promote systematic operation by various departments. As far as Zhaoyuan county is concerned, in 1986 the proportion of its industrial output value in total industrial and agricultural output value was increased to 76.8 percent. Means

of production needed by the rural areas include not only chemical fertilizer, agricultural chemicals, farm machinery, and so on, but also raw and processed materials needed by industrial production. Products sold by rural areas include not only farm products, and breeding and poultry products such as grain, peanuts, fruit, live pigs, and so on, but also a large quantity of industrial products. In 1986, rural enterprises throughout the county consumed 13,797 tons of steel, 98,599 tons of coal, and 24,406 tons of cement. Sales income of rural industry reached more than 600 million yuan, which far exceeded agricultural sales income. The previous situation where industrial goods were sent to rural areas, and agricultural and sideline products entered urban areas, and where barriers existed between towns and counties, had initially been overcome. However, our previous rural circulation system was based on a unitary agricultural production. It performed the functions of serving agriculture, and peasants' livelihood well. However, its service to industry and other undertakings were very weak. Nobody took care of the work of supplying means of production to industry and other undertakings. Nobody was responsible for promoting the sales of their products. Therefore, some undertakings faced difficulties in procuring their means of production, and in selling their own products.

2. There are contradictions between scattered production and overconcentrated commercial networks. After the implementation of contracted responsibility system based on the household with remuneration linked to output, the agricultural production operating units have become smaller. The previous 2,900 production teams in Zhaoyuan county have now been turned into 120,000 contracted households. These contracted households have been badly in need of a circulation organization which replaces the previous circulation functions of production teams and serves them well before and after production. Since other undertakings have just started their operations, the scale of their production is, generally speaking, smaller. For example, of the 3,932 rural enterprises in the whole county, more than 2,600 of them (66 percent) have an annual production output value of less than 50,000 yuan. The scale of production of individual processing households is even smaller. Many enterprises are not close to the sources of raw materials, or consumers' market. They urgently need a kind of intermediate organization responsible for buying and selling a large quantity of means of production and products so that circulation fees can be reduced. Our state-operated commerce and supply and marketing cooperatives have always had dealings with the collectives and big enterprises to deal with a large quantity of key products. They are not interested, and do not yet have the ability to have dealings with tens of thousands of individual households and numerous rural enterprises. This has caused a contradiction between scattered production and concentrated operations of circulation organizations. Peasants have to travel more than 10 li to buy several jin of farm chemicals, or chemical fertilizer. A purchasing agent of an enterprise has to travel across mountains and rivers to buy a small amount of raw

materials. Vehicles must be used to deliver even a small quantity of products. To avoid making frequent purchases of raw materials, and delivering goods for sale too often, some enterprises are compelled to buy a whole year's supply of raw materials. They deliver their products once every several months. This is an important reason contributing to the situation of having too large a stock of goods, holding a large quantity of circulating funds, slow capital turnover, and so on.

3. There is a contradiction between closed production and an ever-changing market. Due to historical, geographical and cultural reasons, compared with cities, rural areas are ill-informed. In the meantime, peasants have just entered the arena of commodity production. Their ability in market forecasting, and in meeting contingencies is still very weak. At present, both international and domestic markets are changing so fast that carelessness is liable to cause severe losses. Under such circumstances, correct market information is urgently needed. We should guide production in a scientific way. Circulation is an intermediate link between production and consumption and should shoulder the task of linking them well. However, over a long period of time in the past, our circulation organizations used to do business by paying the cash with one hand and taking delivery of goods with the other. They regarded the work of collecting market information, and guiding production as something outside their concern. Sometimes, the circulation departments themselves were not well-informed. They created a false impression through their erroneous purchase and marketing activities. In so doing, they wrongly guided producers to blindly expand or reduce their production. They suffered losses because of all this. Several years ago, there were some problems with regard to the purchase of rabbit fur, fruit, and so on.

4. There is a contradiction between seasonal production and the balance between supply and demand required by circulation. Production in the rural area mainly refers to production of agricultural and sideline products, which is strongly seasonal. The demands of society for vegetables, poultry, fruit and so on are different during the off season and the peak period. But, generally speaking, the balance of demands and supplies in the society can be maintained. In addition, a large quantity of products, which are completely fresh, are needed. It is uneconomic and impossible for us to rely on the efforts of individual households to build their cold storages, or to develop their facilities for keeping the freshness of food. It is impossible for us to entirely rely on their efforts to store vegetables and fruit during the peak period, and to supply them during the off seasons to maintain the balance between supply and demand. It is a more appropriate method to let those circulation organizations run these undertakings, and to provide socialized service. At present, the majority of places are still lacking such conditions. Seasonal products are kept by producers, or consumers. A great loss is caused due to the shortage of necessary facilities and technology. Due to our failure in seasonal readjustment, the prices of some products differ

greatly during the off seasons and peak periods. Their prices rise suddenly, or fall steeply. All this is detrimental to both producers and consumers. For example, in 1985, the lowest price of fresh eggs was only 90 fen per 500 grams. But its highest price reached 1.50 yuan. The seasonal price difference was as high as 60 fen. Some households specializing in breeding chickens were unable to withstand loss due to the sudden rise and steep fall of prices, and they were compelled to kill their chickens and sell them.

5. There is a contradiction between production organizations and circulation organizations in their share of interests. In the rural area, besides individual traders, it is the powerful state-operated commerce and supply and marketing cooperatives which have most frequent dealings with peasants. They have monopolized business to a certain extent. Peasants have to rely on them. As a result, it is more often than not the peasants who suffer loss of economic interests. Let us take pig breeding as an example. A peasant, through hard work for nearly a year, can only make a profit of about 20 yuan or so from breeding each pig. He can sometimes suffer losses when the price of grain increases. Through purchasing and selling a pig, a circulation department can make a gross profit of 50 to 60 yuan. When some products are profitable, commercial departments vie with one another to purchase them. When some products are not profitable, nobody cares about them. It is still the peasants who suffer losses.

To solve the above-mentioned contradictions between production and circulation to ensure their coordinated and proper relations is a new question for study that has emerged in the practice of an in-depth rural reform. Summing up the experience and lessons drawn from the reform in the rural commodity circulation system in recent years, we find out that we must concentrate on the following aspects to reform and improve our rural circulation system, so that circulation can serve production still better, and protect peasants' interests.

1. We should improve the functions of state-operated commerce and supply and marketing cooperatives so that they can provide better services. In recent years, while strengthening their functions of serving agriculture, we have focused mainly on the following three aspects to improve and reinforce their functions. a) We improved their function of serving township and town enterprises. Supply and marketing cooperatives at the grass-roots level have generally set up their supply and marketing companies for serving township and town enterprises. Various state-operated commercial companies have established departments in charge of local products. Foreign trade companies have established departments in charge of industrial goods. On the basis of a general survey, they have kept records on the raw materials and products of township and town enterprises to promote purchase and marketing. In 1986, the state-operated and cooperative commercial companies provided township and town enterprises with raw materials

valued at more than 90 million yuan, and sold their products valued at about 100 million yuan. b) We improved their function of serving fish breeding and poultry raising undertakings. A foreign trade company and a cooperative in the county have jointly established a chicken farm. The chicken farm has imported from foreign countries chickens of fine breed which have been provided to peasant households engaged in chicken breeding. Our grain department has established a fodder company to purchase and produce various kinds of mixed fodder. It has provided fish breeding and poultry raising undertakings with high-quality fodder. Commercial, foreign trade, and supply and marketing departments have respectively established meat factories, slaughterhouses, and canned food factories to purchase various kinds of livestock products. They resell them after processing. A service system for fish breeding and poultry raising undertakings has been basically established. c) We have strengthened their function of serving the fruit production industry. The country supply and marketing cooperative has taken the lead in setting up seven fruit cooperatives in fruit-producing areas. It has also set up three cold storages, two fruit processing factories, and two seedling nurseries to serve peasants engaged in fruit production before, during, and after production. At present, their service functions in these respects are still comparatively weak, and some of their service functions are to be strengthened. Practice has proved that only by actively entering the new field of service in the rural areas can the state-operated and cooperative commercial departments expand their business, and satisfy the demand of the development of production. Otherwise, they will not be able to serve production well. In the meantime, their production will also be hampered.

2. We should open up new circulation channels so that circulation departments can serve tens of thousands of households and numerous small enterprises. To do so, state-operated commercial enterprises must first expand these channels leading to rural areas. In the past, the supply and marketing organ of the material and goods department was mainly set up in the county town. It mainly served local state-operated enterprises, and big collective enterprises run by the county. Now, township and town enterprises have developed, and they have demanded that convenient service be provided to them. Therefore, we have established goods and material centers, and township and town enterprises. We purchase goods and materials in a centralized way, but our supplies are carried out in a scattered way. This practice has been enthusiastically welcomed by our customers. Those state-operated commercial organizations in our county engaged in commerce, foreign trade, grain, and so on have also made some experiments in this regard. They have all achieved good results.

However, it is difficult to form broader links with numerous rural commodity producers by simply relying on the state-operated commercial enterprises, and supply and marketing cooperatives. Therefore, new circulation organizations and circulation channels have

emerged as the times require. According to the situation in our county, apart from supporting individual operators, at present, we must concentrate on supporting and developing two contingents and one kind of market. The first contingent is the rural supply and marketing service contingent. After the abolition of production teams, tens of thousands of peasant households buy means of production directly from supply and marketing cooperatives. This has been very inconvenient for them. Therefore, a supply and marketing service contingent at village level is set up between supply and marketing cooperatives and peasants. The service contingent buys large quantities of agricultural means of production. It resells them to individual households. The contingent earns its incomes from subsidies, or service fees. This method is warmly welcomed by agricultural contracted households. Through this contingent, every year Zhaoyuan county supplies peasant households with means of production valued at about 50 million yuan. The second contingent is the supply and marketing contingent for enterprises. At present, it is still the main force for supply and marketing for township and town enterprises. In our county, township and town enterprises have to mainly rely on their efforts to acquire more than 80 percent of the raw and processed materials they need, and sell more than 80 percent of products they manufacture. At present, the quality of our working personnel in township and town enterprises, who are in charge of supply and marketing, is still comparatively poor. We should adopt various methods to strengthen training for them, and to improve their quality. The so-called one kind of market means that we should develop various kinds of special markets. In recent years, through our positive guidance, two special wholesale markets of vegetables and building materials have been gradually established in our country on the basis of spontaneous development. These special wholesale markets have attracted numerous buyers and sellers, and consumers from other places can buy various kinds of products from these markets, and avoid rushing about. Both producers and buyers are benefited by these special markets. They have great prospects for development. On the basis of continuing to consolidate the existing special markets, we are planning to develop special markets for fruit, vermicelli made from bean starch, and so on.

3. We have developed cooperation between agriculture and commerce on the one hand, and between industry and commerce on the other to promote unified operation of agriculture, industry and commerce. At present, most of the cooperation between agriculture and commerce, and between industry and commerce in our county is based on their loose links. Production organizations and circulation organizations sign a contract on defining their production and marketing relationship, and fixing their protective prices to form stable relationships between production and marketing. There is a small number of organizations which pursue close cooperation. They make joint investment, carry out unified operation, and share their interests. What merits our attention is that in the process of reforming supply and

marketing cooperatives, some special cooperatives, which mainly rely on supply and marketing cooperatives, have been established. These special cooperatives, which go beyond the boundary of administrative areas, are jointly run by supply and marketing cooperatives and specialized producers with capital provided by them. The purpose of these cooperatives is to provide services for specialized producers before and after their production. Some of their profits are accumulated for their own development, and some are returned to peasants in accordance with the amount of products sold by them. Such organizations have removed the barriers between agriculture, industry and commerce, so that they can readjust their interests within an entity. This organizational form is welcomed by specialized producers. Let us take the fruit cooperative as an example. It is jointly run by supply and marketing cooperative and fruit growers. Individual share holders sign contracts with the cooperative. These shareholders will give 70 percent of their products to the cooperative, whereas the cooperative will return 30 percent of its profits to producers. At present, seven fruit cooperatives have been established in our county. More than 2,000 fruit growers have joined them. More than 60,000 mu of orchards are under the control of these cooperatives, with their fruit production output accounting for 70 percent of the fruit production output in society, and their fruit commodity amount accounting for 70 percent of the fruit commodity amount of the society.

In addition, we have established cooperatives connected with livestock, poultry, edible fungus, the building industry, and so on. They have done a good job of serving production and protecting the interests of peasants. Practice has proved that the establishment of various kinds of special cooperatives, which are mainly based on the existing state-operated and collective commerce, and the promotion of unified operation is a breakthrough in the reform of rural circulation system. They should be advocated, promoted and developed.

4. We should further the development of basic facilities, and do well in providing information services. At present, efforts should be made to grasp well the development of facilities in the following three aspects. a) We should build more storage facilities. We should build in a planned way some cold storages aimed at retaining the freshness of food to reduce fluctuation of supply due to seasonal change. In recent years, our county has successively built three cold storages and three freezers. During the peak period, we purchase and store relevant vegetables and fruit, and so on. During the off seasons, we supply them to the market. This is convenient not only to producers, but also to consumers. b) We should develop the facilities in special markets. At present, the facilities in our existing special markets are comparatively poor. Let us take our special markets of vegetables and building materials as an example. These markets lack good storage conditions, and other service facilities. In the future, we should increase our investment in this regard, serve our buyers and sellers well, and

promote the prosperity and development of these special markets. c) We should develop the facilities for after-sales service. At present, poor after-sales service has become a very acute problem. When the equipment and facilities bought by producers are damaged, there is no place to repair them. When spare parts are lacking, there is no place to replace them. Very often, production has to stop because of all this. Circulation departments should give play to their merits of having wide commercial networks, and being able to establish direct links with consumers to increase facilities and the number of personnel in charge of after-sales service to help producers solve their difficulties. Information is the basis for making policy decisions. So it is the desire of the rural circulation organizations to provide the ill-informed rural area with market information, so that peasants' policy decisions on production will conform with the ever-changing market. In accordance with the practice of Zhaoyuan county in recent years, to accomplish this desire, efforts must be exerted in the following ways. 1) Circulation departments should take lead in establishing commercial networks in various cities to exhibit products manufactured by the county. Information can be collected for producers through these commercial networks. 2) Purchasing agents should give play to their strong point of having wide experience. They should be assigned the task of selling products, and collecting market information. The information they have collected should be regularly screened and sorted out. Producers should be provided with market information regularly. 3) Various circulation organizations should make regular market forecasts and analyses. The results of their analyses should be used as a basis of their purchase and marketing activities, and can be used as reference by producers in the interest of their organization of production.

**Several Questions Concerning the Building and the Reform of Town and Township Organizations**  
 HK2506064188 Beijing HONGQI [RED FLAG] in Chinese No 11, 1 Jun 88 pp 18-22

[Article by Liu Zhenwei (0491 2182 0251)]

[Text] At present, the main tasks in the building of township and town organizations are to actively implement the principle of separating the party from the government, to strengthen the government functions, to establish the authority of the township and town governments in administrative and economic management work, and to perfect the internal mechanisms of the cooperative economic organizations. Thus, the party organizations and government institutions will be able to perform their respective functions and effectively guide and manage the political, economic, cultural, and various social affairs in the localities. This will also help the cooperative economic organizations at the township and town level to gradually grow and be perfected so that they will become economic entities in real terms.

**1. Relationship Between the Party and the Government**

In early 1985, we completed the work of separating township governments from people's communes, and this began to change the previous situation in which the party, government, and economic enterprise were integrated into one entity under the system of the people's commune. However, in many localities, although the organizations and personnel were divided, the division of duties and functions was still nominal. In actual practice, decisions on many affairs were still made by the party committees and were then implemented by the governments. In many cases, the party committees still had many things, big or small, under their control.

The relationship between the party and the government at that time had not yet been rationalized. The objective reason was that the structural reform had not long been carried out, and the power structure with the party committee as the center under the system of the people's commune retained its inertia. People had to gradually change and adapt their ideas and actions to the new system. In addition, reform needs coordination between different administrative levels; otherwise, it is hard to achieve the expected results. There were also some subjective reasons, which were mainly some problems in people's minds. First, some comrades still thought that the separation of the party from the government would weaken the party's leadership. Second, some comrades who worked with the party committee understood in theory that the separation of the party from the government would strengthen and improve the party's leadership, but they still cherished various misgivings in practice and feared that the party's leadership might be given up. Some comrades who worked with the government were also worried that they might be blamed for shaking off the party's leadership, so they still tended to ask for the party committee's instruction on some matters they could have decided for themselves. Third, some responsible comrades of party committees only considered the increase or decrease in their personal powers, so they were afraid that if they did not handle concrete work but merely gave general guidance, their power and influence would decrease. These problems in people's minds are in fact related to this question: How should we understand the form of the party's leadership?

In China, the character and position of the party determine that the party should exercise leadership over everything. Fundamentally speaking, this is a correct principle. The problem is that if the party organization acts as the power organ above the government at the same level and replaces the government in performing routine administrative functions, it will be entangled with large quantities of routine and tedious affairs and will have to bear excessively heavy work loads. As a result, the party organization cannot effectively consolidate itself, and will also hinder the government institutions and economic organizations from taking initiative in their work. Moreover, this will lead to such problems as the excessive concentration of power, the overlap of

organizations, low work efficiency, and bureaucratism. When there are grievances and discontent among the masses or relations between cadres and the masses turn sour, the party organization is very likely to be the target on which the masses vent their anger and grievances. If there are errors in the routine administrative work, the people may also regard them as mistakes of the party. So, to meet the needs in our economic structural reform, we must adjust the functions of the party organizations, and change the form of the party's leadership. In terms of relations between the party and the government, the party's leadership should be political leadership. That is, the party should formulate the political orientation, political principles, and major policies for the government. The character of the party determines that the party has the right and duty to decide the general principles for our country's social and economic development. However, the party is just a political organization, and is not a link in the state power structure. So, its relationship with the government is not a subordinate relationship. In addition, the functions of the party's central leading organs are different from those of local party organizations and grassroots party organizations. The party's central leading organs are responsible for formulating the line, principles, and major policies; while local party organizations are responsible for concretely implementing the party central leadership's line, principles, and policies in their localities, and the grassroots party organizations play a role in guaranteeing, supervising, and providing services for the implementation of the party central leadership's policies. Therefore, the party's leadership in general terms should not be simply taken as the holding of all powers in the hands of the grassroots party organizations, which can thus directly interfere in all fields of the social and economic life. "Leadership" is not equal to "monopoly of all powers," nor should "leadership" be equated to the holding of absolute power. Meanwhile, the party's leadership should also be demonstrated by the activities of all party members, especially through the efforts of the party members who hold responsible positions in government institutions, mass organizations, and economic organizations. In the course of performing their duties and functions, these party members should carry out the party's decisions in an exemplary fashion, and this also embodies the party's leadership. As Comrade Deng Xiaoping pointed out, "as a matter of course, the government work should be subject to the party's political leadership; with the government work being strengthened, the party's leadership will also be strengthened." ("Selected Works of Deng Xiaoping," p 299-300)

Therefore, the building of township and town administrative organs should follow the principle of separating the party from the government and establish the authority of the township and town governments in managing the local social and economic activities so that the township and town governments can exercise their power to manage the economic work, to handle administrative work, and to distribute human, material, and financial resources. Under the premises of pursuing the

general objective set by the party, the township and town government should be able to decide their concrete development plans and work steps, and they do not need to submit affairs within their jurisdiction to the party committees for discussion and decision. The party committee should concentrate on guaranteeing the implementation of the party's policies, supervising the government work in light of the general principles, consolidating the party in terms of ideology and organization, setting aright the party style, promoting the spiritual civilization, strengthening political and ideological education among the peasants, strengthening the leadership over the work of the CYL, the women's federations, and the militia organizations, and strengthening the training and assessment of and supervision over, cadres.

The adjustments of party organizations' functions and the change in the form of the party leadership also need corresponding adjustments and changes in the system. The separation of the party from the government provides a necessary condition for township and town governments to perform their functions as specified by the law. However, in the transition from the old system to the new, the old system under which party committees take charge of all administrative affairs may still have strong influence. If the new system is not perfectly built, the separation of the party from the government will just be nominal. Therefore, first, the setup of functional departments and the personnel appointment should be brought into line with the functions of the township and town party committees, and they must work efficiently. Second, work regulations should be formulated for both the party committees and the governments so that they can perform their respective functions strictly according to the regulations. The functions and responsibilities should be explicitly specified, and vague language should not be used; otherwise, people may act as they like. The formulation of the new system must be based on the reality. In different stages, there may be different requirements. In the transition period, the requirements can be lower so as to prevent the appearance of a "vacuum" in administrative operation. With people's mentality and the work mechanisms being adapted to the new system, we may then gradually move toward the target pattern. In short, with the party being separated from the government and giving up some functions and tasks which do not belong to the party, a correct relationship between the party and the government can be established, and this will provide more favorable conditions for the party organizations to carry out the political work. The party organizations exercise leadership in an indirect and principled way, organize and support the people in playing the master role and building a socialist new life. This is the essential content of the party leadership in the state life. This will never weaken the party's leadership. At the same time, we must also note that the form of organization must be continuously adjusted along with the change of the objective and tasks. In the previous practice of revolution and construction, the party built a set of leadership structure.

systems, and methods. Some of them are still valid and should be carried forward for a long time; but others should be reformed and adjusted along with the changes in the targets, tasks, and the objective environment. This is natural and is in line with the development regularity of things. If no changes are made in light of the changing reality and all previous systems and methods are rigidly maintained, this will be no good for the consolidation of the party.

## 2. Relationship between the Government and the Enterprise

At present, the relationships between the government and the enterprise at the township level can be divided into two categories. In the first category, the township cooperative economic organizations are economic entities (or quasi-economic entities). They act as the representatives of the collective property of the peasants in this township or town; they engage in business activities; and they have the power to handle the assets and manage the personnel affairs. In general, they need the agreement of the party committee and the government when exercising these powers. Even so, these township and town cooperative economic organizations have begun to hold a certain degree of independent thinking, and their development represents a kind of gratifying progress. In the second category, the township and town cooperative economic organizations were treated as administrative institutions at the township level, with their cadres being appointed by the superior authorities. They perform the township and town governments' function of economic management. Most township and town cooperative economic organizations belong to this category. So their functions overlap and contradict those of the township and town governments. For this reason, some localities have disbanded the township and town cooperative economic organizations, and set up an agricultural office and an industrial office under the township government. In some localities, although these cooperative economic organizations still exist, they only exist in name and no longer play a real role. In the course of separating the government from the people's commune, some localities did not properly distinguish the government's economic management function from the business activities of the cooperative economic organizations, so when they tried to change the situation in which the government substituted for the enterprise, they caused another deviation by making the enterprise substitute for the government.

The separation of the government from the enterprise is not to cancel the government function in economic management, but is to change and improve this function. For a very long time, we repudiated the commodity economy and adopted a whole set of economic management systems to unify production management and distribution from the macroeconomic field to the microeconomic field. This was also the case in the people's communes. The commune performed mandatory administrative functions and used administrative orders and instructions to guarantee the fulfillment of the

economic tasks. Thus, the political function of the government was lumped together with its economic function. As we know now, the government should use administrative means to perform its political functions, and should follow the economic laws to perform its economic functions. To separate the government from the enterprise, we will take away the business management function from the government and hand it to the economic entities, and will at the same time change the government's economic management function. Previously, economic management was mainly conducted through mandatory administrative orders and direct administrative interference; now, we will mainly rely on economic means to exercise indirect control and give proper guidance. It is not right to think that after the government is separated from the enterprise, the government will not play any role in economic management. In actual economic life, after the comprehensive rural cooperative economic organizations or the township and village enterprises achieve greater decisionmaking powers in handling their business, they will still have to rely on the guidance, assistance, and service of the township governments in the handling of their relations with the state, in the handling of foreign economic relations, in the management of public works and facilities, and in the establishment of service organizations. Under the conditions of public ownership over the means of production, no economic organization can manage totally without the help of the government or possess full economic functions. Therefore, for rural cooperative economic organizations, the township and town governments should, on the one hand, represent the state interests and use economic plans and such economic levers as taxes, credit, and prices to control and supervise them; on the other hand, and should also provide them with necessary information, consulting services, scientific and technological guidance, and personnel training. For example, the township government should perform the following functions: Formulate and implement the economic and social development plan for the township; coordinate relations between villages and between economic organizations; supervise the proper observation of the state laws, regulations, and the party's policies by all economic organizations and individual enterprises; protect their legitimate interests and rights; properly manage the township finances; guide and supervise the financial, statistical, and other economic management work in the cooperative economic organizations; spread advanced technologies; and so on. However, in some localities, some problems need to be urgently solved in order to develop the commodity economy, but no one is responsible for dealing with these problems. This is because some cadres do not fully understand the change in the government's economic management function. When they found that direct interference was ineffectual, they simply gave up management and went to the other extreme.

Now, various cooperative economic organizations have been developed in some townships. Some of them are called agricultural-industrial-commercial companies:

and some are called economic federal associations. No matter what they are called, they are economic organizations run and owned by peasant collectives. They should be built into economic entities, and they will gradually become the main investors and organizers in the township economic construction. They work under the guidance of the township governments, so it is natural that they cannot become economic management organs parallel to the township governments or substitute for the township government in performing the economic management function. Nor can its function be substituted for by the township government. These economic organizations and the governments should depend on each other and make use of each other. Now, we should not argue whether there should be cooperative economic organizations in townships and towns; instead, we should consider what kind of economic organizations we should build. Should they be economic entities or "another government" parallel to the township government? Of course, economic development varies greatly from one locality to another, and the cooperative economic organizations should be formed in light of the local conditions. They may be comprehensive over a large scope of cooperation, and may also specialize in a particular field. In short, it is impossible and also unnecessary to impose any uniform pattern on these economic organizations when conditions are not ripe. However, it is undoubtedly necessary to gradually develop and improve the township cooperative economic organizations in general.

### 3. Relationship Between "Blocks" and "Strips"

Another factor that affects the township governments in performing their functions is the existence of too many contradictions between the "blocks" and "strips."

At present, more than 20 county departments have branches in the townships. They include the production service departments of farm machines, agricultural technology, power supply, seeds, forestry, business management, and veterinary medicine; the circulation departments of supply and marketing, grain, foodstuffs, and foreign trade; the economic lever departments of finance, taxation, industrial and commercial administration, and credit cooperatives; and the public security and judicial departments. In these organs, the personnel, material, and financial management powers are all held by the vertical "strips," or various departments in charge at the higher level. Of course, vertical management or dual management is a form suited to some departments, but for the departments related to large volume production and business activities, it is better to place them under the management of the "blocks," or the township and town governments; otherwise, it will become more difficult for the townships and towns to coordinate their overall economic development and across-the-board economic activities.

The crux of the contradictions between the "blocks" and the "strips" is not power redistribution because power on one side is too great; instead, the orderly economic

activities in an area are divided into too many segments. The township and town governments are fully responsible for economic development in their townships and towns, but they do not have full power to conduct comprehensive coordination and to control the overall situation. In particular, the development of the commodity economy makes the internal contradiction between the blocks and strips more outstanding. In the distribution of interests, no one is willing to sacrifice his own interests. In reality, if no one is willing to give up even a bit of his interests, then no one will be satisfied. The endless frictions will only affect economic development. Therefore, when considering how to rationalize the relationship between the "blocks" and "strips," we should seek a pattern which is favorable to the coordinated development of economic activities in townships and towns.

According to the current conditions, in the service departments which are directly related to production, such as the departments of farm machines, agricultural technology, seeds, forestry, business management, and veterinary medicine, the power to manage their personnel, material, and financial affairs should be held by the township governments, while the departments in charge at the county level only give professional guidance. After these organs are subject to the management of the township governments, under the present conditions, they will be the trade management departments of the township governments and perform the trade management function; at the same time, they are also business units that offer services to producers. In the future, they will gradually develop into complete economic entities. Under the present conditions, it is still difficult to turn them into complete economic entities: First, the market mechanisms in our country have not been perfected, the price parity between industrial and agricultural products is seriously distorted. When the prices of agricultural products cannot reflect their real value, services for agriculture can only be compensated at a relatively low rate, and the profits gained from these services can only be modest. Consideration should be given to the overall social effects and the long-term interests of the peasants. The state should guarantee the funds for expanding reproduction in these units, and this should be taken as a kind of indirect subsidy for the peasants. Second, cadres now, in general, are not willing to be transferred from an administrative unit to an enterprise. To solve this problem, we cannot rely on partial reforms; instead, reforms in a wider scope and at a higher level, including the reform of the cadre and personnel system, must be carried out, and corresponding measures taken to gradually create necessary conditions.

Some departments, such as transport, posts and telecommunications, grain, power supply, public security, and judicial departments, require more professional management, and "strip" management is more favorable to their work. Then, these departments can be subject to dual leadership. The township authorities are mainly responsible for ideological and political work in these departments, and the departments in charge at the county level

are responsible for their professional work. Personnel changes and appointments in these units should also be approved by the township governments.

Some departments, such as the industrial and commercial administration offices, are set up according to economic districts. If these organs are set up in all townships and towns, the staff of these organs will have to be increased and the administrative expenses will also increase. For example, there are now 1,257 industrial and commercial administration offices set up according to economic districts in Hebei Province with a total staff of more than 7,000 people; but if these offices are set up in all townships and towns, there will be 1,889 offices with a total staff of more than 13,000 people. So this should be concretely analyzed. The new establishments should not be as large as the previous ones, and the number of staff should be controlled in light of the needs of the business. At present, tax collecting offices are located in townships or in economic districts, and all of them are directly subordinate to the tax bureau. If a tax collecting office is located in an economic district, it dispatches tax collectors or tax collecting groups to the relevant townships. At present, several hundred thousand yuan of tax revenue can be achieved in some townships every year. With the development of the commodity economy, the tax revenue in townships will certainly increase. So a small number of tax collectors, who are sent to the townships, will not be able to cope with the developing situation, and cannot effectively prevent tax evasion or grasp all tax revenue sources. Now, 80 percent of townships throughout the country have set up their own finances. The financial revenue of some townships is considerable and reaches 1 million yuan a year. For example, the annual revenue of 16 out of the 124 townships in Wuxi City, Jiangsu Province, exceeds 10 million yuan. However, because of slow economic development, some townships achieve little financial revenue. Now, most tax revenues are concentrated in the hands of the "strips" and little is left in the hands of the townships. This cannot arouse the enthusiasm of the townships for collecting taxes. So the tax department should consider a plan to link tax collection with township financial revenue, with part of the taxes being retained by the townships and a fixed amount of taxes being turned over to the counties. If tax revenue is linked with the township finances, this will enable the tax department to grasp all tax sources, and will also arouse the initiative of the townships in organizing the tax sources. This will guarantee the synchronous increases in taxes, financial revenue, and the output value. Some comrades are worried that this may affect the state tax revenue, but the practice in some localities shows that this will be beneficial to both the state and the townships.

For some functional departments at the county level, shifting the management over their branches in townships to the township governments only changes the administration relations, and in the field of professional business, the township branches are still subordinate to

them. The county departments should continue to be responsible for the personnel training, technical consulting, and professional inspections for their township branches and this must not be weakened. Special funds should be allocated to the branches and must not be affected. These funds should be increased year by year with the development of production. The township and town governments should not abuse these special funds, and cannot use them for other purposes. They cannot freely transfer professional and technical personnel to other departments, and cannot make improper administrative interference in the professional work of these departments.

While rationalizing the relationship between "strips" and "blocks," we need to adjust the unreasonable cadre structure at the county and township levels. According to sample investigations, at present, the ratio of party and government cadres at the county level to those at the township level is 7 to 3. Tens of county departments are issuing orders to the townships, and this adds unbearable burdens to the townships and simply draws the work of the townships into a passive position. Therefore, in the political structural reform, it is necessary to take steps to streamline the county-level organs and reduce their personnel so as to transfer more cadres to the townships. The new working system should be marked by "a relatively large township organization, and a relatively small county organization; relatively large economic management departments, and relatively small administrative departments; relatively large government establishments; and relatively small party committees."

After cadres at the county level are reduced, we should not allow township organs to swell, and must control the number of the staff in various township organs in light of the relevant central regulations. At present, 50 to 70 percent of the staff members in township organs are peasants who have not been officially appointed to be cadres. Some of these people are not competent and lack management ability. So the incompetent personnel should be dismissed to guarantee the high quality of the cadre ranks at the township level.

#### On Abstract Understanding in Historical Research

40050324f Beijing HONGQI [RED FLAG] in Chinese  
No 11, 1 Jun 88 pp 23-29, 30, 31

[Article by Liu Zehua [0491 3419 5478] and Qiao Zhizhong [0829 3112 1813]]

[Text] Historical research is, in essence, an attempt by people to deeply understand past human societies. It can be divided into different forms on the basis of cognitive methods and cognitive goals. One of these, abstract understanding, occupies an extremely important position in the course of historical understanding. Marx said: "In the analysis of economic forms neither microscopes nor chemical reagents are of use. The force of abstraction must replace both." ("Selected Works of Marx and

Engels," Vol 2, p 206) In principle this applies to all branches of the social sciences and history is no exception. Abstract understanding in history is mainly carried out through the mode of theoretical thought. It is a process by which concepts which reflect historical things are formed and employed in thought, then develop into a system of concepts which in turn leads to the reproduction of concrete history in thought. In depth and breadth it can be divided into several levels including classified abstraction, essential abstraction, inevitability abstraction and unified diversity abstraction.

### I. Classified Abstraction

Classified abstraction involves the adoption of fixed historical facts as an immediate point of departure, the pulling together of historical facts of the same type and the subsequent comparison of them and the understanding of their common aspects. Its cognitive characteristics are: 1) The classified concepts of cognitive activities. This plays a guiding role in selecting the scope and orientation of the object of cognition. The selection of the object of cognition is not arbitrary or blind. Rather, it is based on the results of a careful and detailed analysis of historical phenomena. The "Historical Records—Money and Production Biography" took the people engaged in industry and commerce as its target of cognition. On the one hand it summed up the activities of these people and on the other hand it analyzed the vocational divisions of society. 2) It forms abstract concepts for various common attributes of particular historical things, or provides a summary explanation of particular historical phenomena. For example, the concepts of "artisans," "farmers" and "merchants" are all reflections of particular common vocational attributes.

The point of attention of classified abstraction in terms of the object of cognition is not overall historical events, but specific questions. However, because there are classified concepts, classified abstraction avoids the isolated examination of a singular event and begins to explore, to a certain degree, the internal relationships between historical phenomena. Selective and categorized classified abstraction breaks down the natural situation of historical relationships, carries out selective abstraction from historical events and brings into play its dynamic role in cognition.

In our country's distant past, classified abstraction of history was quite developed and was used from a very early time in the compilation of historical works. The earliest historical works in the annalistic style recounted history in accordance with its natural state, while the annals-and-biographies historical work "Historical Records" compiled by Sima Qian took history and subjected it to classification. In the sections "Basic Annals," "Treatises" and "Biographies" of "Historical Records" those aspects which externally had common characteristics were selected and included. This is especially so of the "Biographies" which used classifications

such as "Upright Officials," "Cruel Officials," "Wandering Knights," "Money and Production" and so on. The abstraction and summarizing of the common attributes of types of historical figures was already quite clear. This was a break with the detailing of history in its natural state as occurred in the annalistic records, and involved the direct use of the cognitive results of classified abstraction.

Although classified abstraction is an important stage in historical understanding, it has major restrictions. The historical relationships it sums up are only those observed in the external state of historical things and in the external results of historical activities. It lacks an analysis of the internal contradictions in historical matters. At the same time, it is very difficult for this abstraction, on the cognitive level, to transcend the limits of "classifications." At most it can manage an external comparison, within a small range, between similar classifications and opposite classifications. This inevitably brings with it a superficiality and narrowness in understanding. For example the officials of feudal times could be summed up into the different classification of "honest officials" and "corrupt officials," "upright officials" and "cruel officials," the "loyal and virtuous" and the "evil and deceptive," or the "pure and honest" and the "corrupt and evil." Although these abstractions do provide an historical understanding of ancient officials, it is not possible on this basis to raise understanding to a level whereby the nature of the feudal official system can be understood. To varying degrees, it is still possible for there to be obstructions to inquiry into the question of the nature of the feudal official system and for many years the eulogizing of "honest officials" has produced confusion in understanding.

When we have understood the characteristics and restrictions of classified abstraction, we will not be perplexed by the various classified analysis methods in historical research, while we will be able to draw on the rational elements. For example, the historical system of Arnold Toynbee which was fashionable in the West for a time did not lack penetrating judgments in terms of historical understanding, but his understanding of overall world history was based on the 20-plus unconnected "civilizations" which he divided according to external forms. This system was formed with a classified abstraction methodology, and is situated at the initial stage of abstract understanding. However, some articles in China have praised Toynbee's system as "high-level historiography." Clearly this is not true.

Complex historical matters often show different attributes from different sides and, in their understanding, people may find that there are diverse classified analyses. Here, the forms and standards of classification are of paramount importance. When we carry out classified abstraction of history, we should consider it as a ladder for deepening understanding, so that the results of

classified analysis presage the wide prospects for exploration into the nature of history and the patterns of history. This requires that we seriously adopt scientific classification modes and classification standards. For example, in the understanding of China's landlords in ancient times, on the basis of the external situation of their conduct and activities, they can be separately classified as "good men," "harsh masters" and "evil tyrants." It is also possible to engage in classified analysis on the basis of the economic and political characteristics of how they obtained their land and wealth. In terms of further understanding the nature of China's feudal social economy and economic relationships, the effectiveness of these two methods is vastly different. It is very clear that on the basis of the first type of classified abstraction, regardless of how the materials are put together, analyzed and compared, it will be difficult to achieve a real increase in historical understanding.

## II. Essential Abstraction

All historical things are constituted by the unity of opposites of historical phenomena and historical essence. Historical phenomena are diverse and ever-changing, while historical essence is innate and relatively stable. The essence is of course manifested through the phenomena, but it is not directly manifested. As Marx said: "If the form of manifestation of things and the essence of things were joined as one, all science would become superfluous." ("Complete Works of Marx and Engels," Vol 25, p 923) Classified abstraction can provide the understanding of the essence of history with a certain base, but if the essence is to be truly understood, it is necessary, on the basis of appropriate classified abstraction, to engage in further abstract thought. This process of cognition can be called essential abstraction.

The aim of essential abstraction is to obtain a judgment on the basic nature of historical objects. This requires that we analyze the innate relationships of history through the common things in historical phenomena, and examine the special place of historical matters in historical and social relationships. For example, by classified abstraction of the large number of historical phenomena manifested by the eunuch strata in ancient China, we can come to the following understandings: Eunuchs were a type of people who, after having been castrated, held office in the palace and the court; eunuchs can be divided into those who participated in government and those who did not, those who wielded great power and those who held normal offices, those who gained power through the excessive trust the emperor placed in them and those who banded into cliques to influence the political situation. On the basis of these understandings, we can think more deeply. Thus we will discover that low status and being active in the highest political circles are things common in the historical phenomena involving eunuchs and is a contradiction in the social position of eunuchs. The role of eunuchs in ancient times and the final outcome were subject to the restrictions of this contradiction. Thus, by

again deeply probing into the role played by the eunuchs in overall political life in ancient times, we come to understand that on the one hand eunuchs were the product of the cruelty and decadence of the imperial autocracy of feudal times and the feudal ethical code, and on the other hand often constituted additional forces in power struggles. The eunuch strata suffered under autocracy and feudal ethics and their activities in society in general reflected the cruelty and decadence of feudal politics and ethics. This is an essential understanding of the eunuchs. From the above analysis we can see that essential abstraction breaks through the limits of "classifications" seen in classified abstraction, and is realized through examining the universal relationships between things. The essence of specific historical matters cannot be understood in isolation and must always be understood together with the historical matters with which it is tightly related. From this we can see that essential abstraction transcends classified abstraction in both depth and breadth.

As regards complex historical things, their essence has the characteristic of diversity, and this is manifested in two respects: First, the essence has the diversity of different sides and second, the essence has the diversity of different degrees of depth. As far as any particular historical figure is concerned, not only does that person engage in activities of a political nature and of an economic nature, but also possibly in activities in the scientific area and cultural and artistic fields. The activities in all of these areas show one of his special natures. Sometimes these diverse special natures on various sides cannot be summed up into a unified essence, but they commonly reflect from various sides this person's essence. This forms a historical figure's multifaceted essence. For example, Song Huizong was a decadent emperor but he realized great attainments in the areas of calligraphy and painting. Gu Kai of the Eastern Jin Dynasty is a very famous figure in ancient China's painting and calligraphy. However, he was superstitious, arrogant, dissolute and full of the vulgar ways of a scholar landlord. In his historiographical theories, Zhang Xuecheng of the Qing Dynasty put forward many original ideas. However, he fanatically defended the feudal ethical code and moral principles, and advocated harmful rituals. In this respect, he was backward compared to many scholars at that time. It can be seen that we should recognize the diversity of people's essences. Of course, among the many aspects of essence there is an essence which occupies the leading position. This is determined by the person's major historical activities and major influence on history. The class analysis method is the most important and most universal method for recognizing the dominant essence of historical figures, but it is not the only method. This is because the major activities of historical figures and the major historical roles they played were not completely manifested in class relationships. For example, Gu Kai's dominant essence was that in the artistic area, while Zhang Xuecheng's dominant essence was that in the historiographical field. Becoming clear about and mastering on the theoretical level the

issues of the diversity of essences and the standards for determining the dominant essence has very major significance for historical research.

Apart from the diversity of the essence of their various sides, historical matters also have essences of differing depths and differing levels. In terms of specific feudal officials, the judgment as to whether they were "loyal and virtuous" or "evil and deceptive" does involve the question of the essence of these people. However this is the essence at a quite shallow level. By placing these people in the political and class relationships of feudal society and examining which of them represented which strata of interests within the landlord class and which of them represented the long-term interests of the landlord class, as well as which of them played a promotional role in historical development and which of them played an obstructing role, it will be possible to abstract a deeper essence. Lenin pointed out: "The endless process of the deepening of man's knowledge of the thing, of phenomena, processes and so on, from appearance to essence and from less profound to more profound essence" is an "element of dialectics." ("Selected Works of Lenin," Vol 2, p 608) By dividing the essence into different levels of profundity, it is possible to dialectically look at the levels of historical understanding in the past and also possible to prevent the ossification of understanding, and promote the deepening of the abstract understanding of essence.

### III. Inevitability Abstraction

The course of historical development includes the two aspects of historical inevitability and historical chance. What is referred to as historical inevitability means the basic trends which will inevitably be experienced in a certain historical process. Chance refers to vacillation in and deviation from these trends. Historical inevitability opens up roads through rich, ever-changing chance. All those things which come under the inevitable trends of history can be called laws. However, in general we usually refer to historical inevitability over a quite large range and quite long time span as historical laws. The main aim of understanding through historical inevitability abstraction is the recognition of historical laws. By recognizing that historical development has objective laws, we can logically accept that historiography is a science with its own system. Obtaining an abstract understanding of historical laws through large quantities of historical chance is a key task of historical science.

Marxist historical materialism revealed the innate causes of historical development, that is, the contradictory movement between the productive forces and the relations of production and between the economic base and the superstructure, and thereby discovered the inevitable laws of historical development. Thus, historiography truly became a science. However, the Marxist expositions on the overall development of history certainly do not indicate the limits of understanding of historical inevitability. On the one hand, the understanding of the

overall laws of history should be enriched and developed. On the other hand the positions occupied by the various types of historical matters in the relationships of historical inevitability is a topic for endless research.

In understanding historical inevitability, we must guard against making it absolute. First, we must not set down an absolute boundary between inevitability and chance because these two things can under certain conditions change into the other. (Many books have expounded on this and they need not be mentioned here.) Second, we must not consider as absolute all the inevitable trends and development sequences of historical things, because in history there have been situations where inevitable development trends have been broken and development sequences changed. For example, about 2000 B.C. in the Indus Valley there was the extremely prosperous Harappan Civilization. However later it was completely destroyed but the cause of its downfall is still not completely clear. A major thesis is that there was an invasion from a powerful outside group and that there was brutal massacre and destruction. About 1500 B.C., in the Aegean Sea, the Minoan culture which had the island of Crete as its center was relatively prosperous and had probably entered the stage of class society. However, later it died out. It is very likely that the reason for this was the eruption of a volcano on the neighboring island of San-tuo-lin, which led to an intense tidal wave and the subsequent resealing of the volcano. The Indians of the American mainland, and the people in many areas of Africa have seen changes in the inevitable sequence of social development because of the invasions of colonialists. China also did not pass through the complete stage of capitalist society due to the invasion of the big imperialist powers. As historical inevitability can, over a specific range, be broken through and changed, how can we obtain an appropriate abstract understanding of historical inevitability? We believe that the abstraction of historical inevitability must be combined with analysis of the social systems and their levels.

Any group, nation or country which is formed through social relationships can be seen as a social system. Following the daily-increasing extension of social relationships, we will reach a stage where the peoples of the whole world form a large social system. At the same time, the natural world and human societies also constantly form nature-society ecosystems. Whether or not a social system has its own inevitable trend and inevitable process of independent development, and has an ability to oppose foreign interference and put into effect this inevitability, can be called the system's sequential nature. A system's sequential nature has at least the following determining factors: 1) The completeness and the tightness of the system's internal structure. For example, a nation or a country has a stronger sequential nature than a faction or a group. 2) The temporal and spatial position occupied by the system. For example a large, ancient country has a stronger sequential nature than a small country. 3) The degree of development of the contradictory movement within the system and the

level of development of the system. For example, a capitalist society has a stronger sequential nature than a slave society or a feudal society. These three factors complement each other. The demise of the Harappan culture and the Minoan culture was due to the fact that their sequential nature was not sufficient to withstand strong external factors. These external factors in general came from the inevitability of the development of another social system or a bigger nature-society ecosystem. The variation in the social development of the Indians, the Chinese and other nations can all be analyzed in this way. The situations above do not however allow us to deny that there exist universal laws of social development. Rather, the issue is which social systems the manifestations of the universal laws are suited to. Analysis of the levels of social systems and the concept of their sequential nature assist in understanding historical inevitability.

The abstraction of historical inevitability has two modes of understanding which are of different depths: one is empirical summary and the other is theoretical analysis of internal contradictions. When we compare the outcomes of the many peasant uprisings in history, and discover that they all ended in defeat and that the peasants were not able to throw off feudal oppression and exploitation, we achieve an understanding that, in feudal society, peasant uprisings cannot smash the feudal system. This is directly summed up from the historical materials involved, and does not involve an analysis of the internal contradictions of the object of understanding. Thus, it is an empirical mode of understanding. Although the understanding of the laws so obtained is quite shallow and superficial, it is the first step in the understanding of historical laws and it plays a role in sorting out the complex phenomena of history and in showing the threads of historical development. This provides the precondition for theoretical analysis. If we further carry out analysis by proceeding from the class characteristics of peasants as small-scale producers and having no relationship with advanced production modes, point out that peasants could not put forward any program of struggle for destroying the feudal system, and thus the outcome of uprisings was always defeat, this then becomes a mode of understanding which involves theoretical analysis of historical patterns.

In historical research, we must guard against exaggerating inevitability or saying that some things which are not inevitable are historical laws. Some articles, on the basis of the example of the feudal emperor Tang Taizong, assert: "In our country's history, it is inevitable that after large-scale peasant wars, a good emperor is produced. This is an undeniable law." This thesis is not in accord with the theoretical analysis of the contradiction between the landlord class and the peasant class, and will not stand up to the examination of a larger scale of objective history. After the Yellow Turbans Uprising and the Huang Chao Uprising, no emperor like Tang Taizong was produced. Further, there is no way to set

down what constitutes "a good emperor." This shows that theses about historical inevitability which are rashly set down on the basis of partial historical facts are very unreliable.

By abstracting the essence of historical things and the inevitable laws of historical development, the rich and complex things of history will be unified in the stipulation of essence and laws, and the historical phenomena and chance occurrences of history will be temporarily left aside. In this way, the course of historical understanding will shift from the rich situation produced by the collection of materials and examination of historical facts to a focused, systematic and concise level of understanding. This will be able to reflect objective history in a more profound and complete way and thereby will form a systematic historical theory.

#### IV. Unified Diversity Abstraction

Abstracting systematic historical theories from the vast profusion of historical phenomena is only one half in the completion of the entire course of abstract understanding. Marx, when talking about the methods of economic understanding, pointed out that the complete process of understanding must involve two successive paths. "Along the first path the full conception is evaporated to yield an abstract determination; along the second, the abstract determinations lead toward a reproduction of the concrete by way of thought." This reproduced concrete phenomenon "is not a chaotic conception of the whole, but a rich totality of many determinations and relations." ("Selected Works of Marx and Engels," Vol 2, p 103) These "two paths" in understanding have major guiding significance for historical research, because one of the major characteristics of history is that it is based on rich and diverse concrete contents.

In a cognitive sense, what is the nature of "rising from the abstract to the concrete" thereby "leading toward the reproduction of the concrete"? This is a theoretical question worthy of exploration. We believe that when Marx spoke of "the way in which thought appropriates the concrete and reproduces it as the concrete in the mind," the main aspect was still abstract understanding, but of a higher level and with new characteristics. This can be called "unified diversity abstraction." Here the "unified" refers to unified theoretical guidance, while the "diversity" refers to the diverse types of relationships and many determinations which must be abstracted from the target of study. Why do we say that the process of "rising from the abstract to the concrete" is still abstract understanding?

First, the understanding of historical laws and essence which has already been obtained can only be a type of theoretical guidance, providing a general orientation for the reproduction of the concrete in thought. Under the theoretical guidance, all history should be studied anew.

as only thus will it be possible to understand the concrete. This process of studying things anew will of course be accompanied by a series of abstract understandings.

Second, in essential abstraction and historical inevitability abstraction, although scientific modes have already been used to grasp and understand the essence and development laws of history, clearly there are many problems which have not been touched on. The special patterns and special natures of the social systems at various levels and the special history and specific historical matters at various levels, such as cultural development laws, scientific and technological development laws, the essence of a particular historical event and so on are things which must be targeted in "the second path" of understanding. From this we can see that in the stage of "rising from the abstract to the concrete" there is still a need to carry out abstraction of the special laws and the special essences of historical things.

Third, the history which is reproduced as concrete in thought requires not only an understanding of the special essences and laws of historical things, but also an understanding of the nonessential determinations. "The concrete is concrete because it is the concentration of many determinations, hence unity of the diverse." ("Selected Works of Marx and Engels," Vol 2, p 103) Here what is meant by "many determinations" not only includes essential determinations, but also nonessential determinations. If we take a historical figure as an example, from his various social relationships, not only is there a class nature which can be abstracted, but also many other determinations such as political abilities, moral qualities, ways, habits, educational standard, literary and art accomplishments, ideological tendencies and so on on. Only through all of these aspects can an overall concrete understanding of the historical figure be formed. In essential and inevitability abstraction, these many factors are left aside. However, in the process by which something is reproduced as concrete in thought, there is need to abstract these diverse determinations, as only thus will a concrete comprehensive understanding be possible.

Fourth, if history is to be concretely reproduced in thought, many abstract determinations need to be synthesized. This is a new characteristic. However, synthesis is not the simple pegging of things together and there is a need for an overall understanding of the concrete target. Thus, in synthesis there is still a need for abstraction so that the synthesis is abstract synthesis.

In brief, the history which is the reproduction of the concrete in thought does not mean the ending of abstract understanding. Quite the contrary, it is a richer manifestation of abstract understanding and includes all types of abstract understanding, from the primary to the deep. Of course, the abstract understanding at this high stage is guided, ordered and systematic and not everything has to be explored from the beginning. It is like the fact that

man is the highest stage of animal development, but a human fetus still grows from a single cell and completes the several-billion-year evolutionary process of the animal world.

The starting point for unified diversity abstraction is a combination of historical theory and specific research targets. If there is only historical theory, it is not possible to rise from the abstract to the concrete. In the fields of understanding and thought it is possible to find unity in objective diversity. However, unity cannot by itself change into concrete diversity. It is necessary for it to be joined with specific research targets as only then will there be the starting point for reproduction of the concrete in thought. When the various conceptions of the specific research targets, as historical data, are mastered and when the concepts, judgments and determinations of historical theory are actively and precisely assembled as intellectual tools, they can be used to analyze and synthesize the characteristics, in various respects, of the objective target. This analysis is an intermediate link in rising from the abstract to the concrete. Many levels of intermediate links are transcended through the force of abstraction, as only by abstracting the characteristics in various respects of the target of understanding and forming many-leveled determinations, is it possible to carry out the next step in the comprehensive process of understanding. In order to explain the general process of unified diversity understanding, we can analyze the example of research into the specific historical figure of Emperor Wu of the Han Dynasty. The study of Emperor Wu of the Han Dynasty has two important conditions: The first is the mastery of a correct theory for appraising historical figures and an understanding of the general laws of development of China's feudal society. The second is a mastery of the specific data relating to the activities of Emperor Wu of the Han Dynasty. The combining of these two aspects, that is of historical theory and the specific object of understanding, is the starting point of a unified diversity understanding of Emperor Wu of the Han Dynasty. Proceeding from this starting point, the level upon level of analysis of the characteristics of the social relationships and historical relationships in which he existed constitute the intermediate links which will complete this understanding. For example, from the reform of the government and economic reforms carried out by Emperor Wu of the Han Dynasty, we can gain an abstract understanding of his overall strengthening of centralized state power. From his wars against the Huns and his diplomatic activities in the western regions, we can gain an abstract understanding in the area of nationality relations. From the phenomena of his jealousy and suspicion of his ministers and even of his sons, we can gain an understanding of his cruel and imperious ways as well as his intense lust for personal power. From his activities of large-scale construction, costly sacrifices and religious ceremonies, we can observe the depravity and backwardness of his dissipation, love of great celebration and superstition. From the harshness he meted out to the peasants and his repression of the uprisings by rural

vagrants, we can obtain an abstraction of his class nature. The issuing of the "imperial order of self-castigation in respect of Luntai" and the subsequent changes in national administration policies also showed that he was clear-headed and had a long-range view and could readjust policies in accordance with the basic policies of his class. In obtaining these various understandings, we apply the general concepts and categories of historical theory, such as "politics," "economics," "class," "nationality," "centralized state power" and so on, and in no case can these be separated from the guidance of the theories relating to the political systems of feudal society, class struggle and nationality relations.

After the various determinations in respect of Emperor Wu of the Han Dynasty are abstracted, there is a need to carry out synthesis, so as to arrive at an overall understanding of him. This overall understanding will not be a general class label or the stringing together of diverse determinations as noted above. Rather, it will make clear the role played by Emperor Wu of the Han Dynasty in his time as well as the social function he played and his historical influence. This understanding can only be obtained by carrying out a high level summary and abstraction of the unification of the country under the Western Han Dynasty, economic development, the strengthening of central state power and the development of relations with the Huns. Such a process is necessary for studying a single historical figure and is even more necessary when researching larger historical topics.

Unified diversity abstraction is not a return to the gathering of and recording of individual events and trivial details and is not a new piling up of historical phenomena and their chance natures. If in this abstraction there is the reproduction of various historical phenomena, it is only because they are being organized to show and enrich the essence. If various historical chance aspects are reproduced, they are chance aspects which had a great influence of historical inevitability. In brief the reproduction of historical phenomena and chance aspects is organically combined with the understanding of essence and inevitability. In this way, the historical object is reproduced in thought in a flesh-and-blood, lively and systematic way, and a deeper level of understanding is obtained.

#### V. The Place of Abstract Understanding

Objective historical things are rich and complex, and the understanding of history is also something which is rich and complex. Classified abstraction, essential abstraction, inevitability abstraction and unified diversity abstraction form levels of different depth and breadth in the abstract understanding of history. These various levels, in their general trend, develop from shallow to deep. However, in specific historical research, it is not absolutely so that they must be carried out one by one in a linear mode. Rather, they are brimming with interlocking and complex aspects and form a net-like situation of

ascendance. At each level of abstract understanding, historical understanding is never carried out in purely conceptual movement. As Engels said: "Logical development is by no means compelled to keep to the purely abstract sphere. On the contrary, this method requires historical illustrations and continual contact with reality." ("Selected Works of Marx and Engels," Vol 2, p 124) Thus, abstract understanding of history is based on objective historical materials and is absolutely not subjective, abstruse ideas.

The important position of abstract understanding in historical research can be analyzed from three angles:

1. The key link in historical understanding. In historical research, abstract understanding is an active and very prominent mode of thought and it enables extremely complex history to be evaporated to give conceptual systems and general determinations. Also, it uses complete system concepts to master historical facts and thereby have concrete history reproduced in thought. The leap in historical knowledge from the perceptual to the rational and from partial and fragmentary understanding to overall and systematic understanding is completed at the various levels of rational understanding. The profound abstraction of history plays a role in mastering the overall situation and in establishing an ideological system of historical understanding. Thus, the level of historical understanding at a particular time is mainly determined by the level of abstract understanding at that time.

2. Guiding other types of historical understanding. Historical understanding has different modes of thought and research objectives. Abstract understanding is one of these. Apart from this, there is the examination-of-facts understanding which involves the verification of historical materials; the value-nature understanding which involves the appraisal and assessment of the role, influence and significance of historical things; the right-wrong understanding which appraises the correctness or otherwise of mankind's understanding in history; the linking-together understanding whereby the evolution of social factors from ancient times to the present are examined, and so on. The various types of historical understanding provide a base for abstract understanding or play a role in supplementing and enriching it. Also, abstract understanding with its characteristics of being overall and systematic, plays a certain guiding role on other types of understanding. The value-nature understanding, right-wrong understanding and the understanding which links together the past and the present all need to first understand the nature of the target of understanding, the characteristics of the relevant historical period and the social relationships as well as to understand the general patterns of historical development. Thus, they cannot be divorced from abstract understanding. Even the examination-of-facts understanding is not a simple checking and verification of the texts of historical works. Rather, it also must use the results and various methods of abstract understanding. Outstanding textual critics in

the field of history usually have a basic ideology which guides their textual criticism activities. For example the modern "ancient history differentiation school" proposed the thesis of "producing an ancient history of China by levels." This was in fact an abstract understanding of the situation of ancient history detailed in historical works, one which directly led them to the verification of specific historical questions. In brief, when compared to the degree of understanding which can be reached with abstract understanding, all other types of historical understanding can be considered partial research. The overall and systematic historical research results obtained by abstract understanding always play a definite guiding role for research into partial questions.

3. Manifesting the practical goals of historical research. Historical research is not an academic activity engaged in by a few people for academic ends. It has extremely practical aims. In brief, the aims of historical research are to provide knowledge to society, to provide lessons for reference, to assist education, to participate in forecasting, to promote the power of thought and so on. The provision of historical knowledge to society requires that knowledge be deep, systematic, concise and lively. This can only be achieved through reliance on the abstraction of the essence, abstraction of the laws and unified diversity abstraction of historical understanding. The provision of historical experience and lessons requires a deep and correct understanding of historical events and deep analysis of the reasons for successes and failures in history. This obviously cannot be divorced from an understanding of the historical essence and historical laws. The educational role of history can only have scientific significance and long-range effectiveness under the precondition of the abstraction of essence and laws.

Present society is but a link in the long chain of history and only in the light of historical analysis is it possible to predict the trend of its development. The abstraction of historical laws provides a powerful basis for predicting the future. Thus abstract knowledge of history can play a major role in predicting the future. The thought methods of mankind can be divided into historical methods and logical methods. The former is examination and research based on the priority relationships in the sequence of the development of things. The latter is manifested as a series of processes including induction, summary, judgment and inference. The abstract understanding of history, especially the abstraction of historical laws, is an organic combination of the historical method and the logical method, which provides people with a vibrant and effective model for promoting thought capabilities. In brief, through the depth and systematic nature of its understanding being embodied in the practical aims of historical research, the abstract understanding of history has a very great social effect.

**Minutes of 1988 HONGQI Coordinators Meeting**  
HK2406061 Beijing HONGQI [RED FLAG] in  
Chinese No 11, 1 Jun 88 pp 30-31

[Text] A meeting of HONGQI liaison personnel was held from 9 to 11 May in the Beijing Central Party School. Comrade Gao Yang, president of the Central Party School, attended. The meeting was presided over by Comrade Su Xing, vice president of the Central Party School and deputy editor in chief of HONGQI. A total of 35 assistants and HONGQI liaison personnel working in various provinces, municipalities, and autonomous regions and the PLA General Political Department and some comrades of HONGQI were present at the meeting.

1. At the meeting Comrade Su Xing conveyed the decision of the CPC Central Committee and the "Scheme of the Central Party School on Running the Party's Theoretical Magazine on Behalf of the CPC Central Committee." He also gave an account of the publication and distribution of HONGQI since September 1987 and preparatory work made for QIUSHI.

The liaison men attending the meeting aired their views and spoke without any inhibitions. The atmosphere of the meeting was warm and serious. In their speeches, the comrades vigorously supported the decision of the central authorities on setting up QIUSHI, seeing it as a positive way of strengthening Marxist study and propaganda which will be conducive to integrating theory with the practice of reform and opening up; to finding the laws governing building socialism with Chinese characteristics; to explorations, contention and invigorating and vitalizing theories; and to extensively uniting with writers-young and middle aged writers in particular.

2. The comrades attending the meeting believe that the central authorities have affirmed the great deal of work done by comrades of HONGQI with arduous efforts since the 3d Plenary Session of the 11th CPC Central Committee. The task at present is to boost morale and run QIUSHI well. To this end, it is necessary to conscientiously sum up experience, get rid of the baggage, and emancipate the minds.

First, the comrades held the consensus that it is necessary to resolutely implement the guidelines laid down by the central authorities for running the magazine: 1) Comprehensively publicize one center and two basic points with the party's basic line of the initial stage of socialism as the guiding principle, put reform at the center of all undertakings, and prevent rigidity and liberalization. 2) Overcome the shortcomings of excessive seriousness and a lack of vividness so that QIUSHI will have a new outlook in both contents and form.

Second, it is necessary to enthusiastically go deep into the realities of life, acquire an intimate understanding of the actual circumstances, plunge into reform and opening up, and solve the practical problems that demand

**prompt solution.** Many comrades proposed a survey of readers to find out what they are thinking, what they are anxious about, and what they need. Instead of evading the hot, difficult ideological problems of cadres and the masses, flexible measures should be adopted promptly and scientifically to provide theoretical answers. Therefore, the editing work style should change and the magazine should not be edited in the office behind closed doors.

Third, as the name of the magazine is QIUSHI, it is necessary to have the spirit of seeking truth from facts, make bold explorations, and blaze new trails. The magazine should take the lead in unswervingly implementing the "double hundred" policy and take part in contention on an equal basis rather than act as a referee. It should extensively unite with the comrades of the ideological and theoretical circles amid contention.

Fourth, a number of comrades pointed out that QIUSHI should give prominence to major issues rather than have too many columns. Centered on economic and political structural reforms, it should publish articles focusing on major issues. Meanwhile, it should offer more information and knowledge so that the cadres can widen their field of vision and face the world.

Fifth, reduce the number of articles written by leading cadres and noted writers and increase articles by young and middle aged theoretical and practical workers who have keen insight. Pay attention to writers in the border regions and vigorously support the young writers.

Sixth, improve the style of writing, make the magazine vivid, and never try to pursue a set pattern. The articles should maintain different styles and be interesting so that the readers look forward to reading it.

The comrades attending the meeting made a number of constructive suggestions: The magazine should not be run behind closed doors, the Editorial Department should take an active part in and organize activities of theoretical circles and frequently hold discussions and forums on special topics, increase the sense of competition, and conscientiously study and assimilate the valuable experience of other newspapers and periodicals.

3. The meeting held that the liaison men have vigorously supported and assisted editing, publication, and distribution of HONGQI with fervent enthusiasm over the years. The Editorial Department expressed its gratitude to the liaison men. The scheme for running QIUSHI approved by the CPC Central Committee maintains that the system of liaison men should continue to be established in various provinces, municipalities, and autonomous regions and the PLA General Political Department. The Editorial Department hopes that the party committees at all levels and leaders of the PLA General Political Department will continue to support and assist the work of QIUSHI.

4. At the meeting held on 11 May, Comrade Gao Yang delivered a speech entitled "Some Guidelines for Running QIUSHI" in which he pointed out that the magazine should be run by having a firm grasp of readers of QIUSHI as defined by the central authorities. Instead of publishing articles summing up general experience, particular note should be given to the new experiences of universal significance created by the political, economic, and cultural fields in the practice of reform. These experiences should be theoretically affirmed and extensively spread. Upholding Marxism should be integrated with developing Marxism, he stressed and the contents of QIUSHI should focus on economic structural reform, political democratization, and training new people with lofty ideals, moral integrity, better education, and a sense of discipline, that is, developing social productive forces, increasing the people's sense of responsibility of being masters of their own affairs, and improving the people's ideological and cultural qualities. He also emphasized the importance of improving the style of writing.

**Cultural Studies Should Be Based on Reality—An Interview With Ding Shouren**  
40050324g Beijing HONGQI [RED FLAG] in Chinese  
No 11, 1 Jun 88 pp 32-35

[Interview with Ding Shouren [0002 1343 0735], researcher of the Chinese Academy of Social Sciences and editor in chief of JINDAISHI YANJIU [MODERN HISTORICAL STUDIES], by HONGQI reporter]

[Text] Recently, our reporter had an interview with Comrade Ding Shouren, researcher of the Chinese Academy of Social Sciences and editor in chief of JINDAISHI YANJIU. As director of the Cultural Studies Office of the Institute of Modern History, he has done a lot of research into Chinese ideology and culture. During the interview, he spoke at length on the "cultural fever," comparative Chinese and Western cultures, how cultural studies should be conducted in depth, and other issues.

Reporter: Cultural studies as an interdisciplinary study has remained a no-man's-land for nearly 30 years since the founding of new China. The fact that very little has been written on this subject shows that it has not been given much attention. In the early 1900's, all kinds of cultural research organizations and bodies were set up, and we were caught in a surging tide of seminars, courses, articles, theses and publications on the subject of culture. In the last few years, there was even a "cultural fever." How did this come about?

Ding: The term "cultural fever" is used relative to the situation in the past when little or no attention was paid to cultural studies. It came about mainly through reflections on the "Cultural Revolution" and as a result of carrying out reform and the open policy after the 3d Plenary Session of the 11th CPC Central Committee. The so-called "Cultural Revolution" was a revolution against culture. Why did this happen? Reflecting on their

past sufferings, people have come to realize how damaging were the remnants of feudalism. The "three loyal and four boundless" movement, the practice of "seeking instructions every morning and reporting every evening," the new deification movement and the like were all feudalist stuff. Thus, in order to eradicate the remnant poison of the "Cultural Revolution," we must sum up and sort out what had happened from the cultural perspective both in breadth and depth so as to complete once and for all the great task of opposing feudalism, a task that had never really been completed. Some comrades believe that if the "Cultural Revolution" denounced culture and criticized Confucius and the Confucian doctrine there must be something good about our traditional culture. They think that the very fact that traditional culture has a history of several thousand years is proof of its great vitality. In its endeavor to modernize, China must proceed from its own characteristics and its traditional culture. It is therefore particularly worthwhile to make a fresh go at Confucian studies. And, seeing that Confucianism is highly valued in some countries, they think that it can promote and help achieve modernization. In their opinion, the May 4th Movement which called for the denunciation of Confucian ideas and brought about a rift in Chinese tradition was wrong. Of course not everyone agrees with these views. As our country pursues its reform and open policies, people have broadened their vision and come to learn more and more about other countries. They have come to see things differently, and they begin to contemplate such issues as how to assimilate the advanced culture of other countries to transform the backward outlook of their motherland and how to develop a socialist new culture with Chinese characteristics. The above-mentioned elements work together and influence each other to produce a scene of bustle and excitement in cultural studies in China.

Reporter: You are saying that this "cultural fever" has come about out of actual needs?

Ding: Yes. The motivating force for cultural studies originates in reality. I believe that the deepening of cultural studies will bring about development in reality. This has been proven by the birth and development of the New Culture Movement during the May 4th period. At that time, China was backward, poor and being pushed around. This made people evaluate China's traditional culture. They introduced ideas of democracy and science from the West, vehemently criticized feudal autocracy and feudal ethics, and emancipated their minds. This paved the way for the spread of Marxism-Leninism, directly precipitated the May 4th patriotic mass movement, and ushered in a new stage of Chinese history. It can thus be seen that cultural studies can only play an important role and have great vitality if they are based on reality.

Reporter: In our endeavor to base cultural studies on reality, the first problem we have to tackle is how to correctly understand and handle the relationship

between traditional Chinese culture and Western culture. Would you care to give your opinions on this?

Ding: Chinese culture has a long history. It is rich and variegated, covering almost everything. It is also very complicated. We have many fine traditions and positive ideological elements. We have the idea of changes and the idea that "life is the greatest virtue on earth," a philosophy on life which advocates that one should make unremitting efforts to improve oneself, be vigorous and enterprising, and study tirelessly. We have the philosophy on life advocated by Confucius which says that one should immerse oneself in one's work and find pleasure in what one does and should not "be sated with food and remain idle." We have the idea of a man of great integrity championed by Mencius who "cannot be debauched by riches and honors, cannot be shaken by poverty and cannot be intimidated by force." Then there is Fan Zhongyan's [5400 0112 3238] idea of integrity which says that one should "be concerned about affairs of the state before others and enjoy comfort after others." We have patriotic ideas like "every man alive has a duty to his country" advocated by Gu Yanwu [7357 3508 2976]. We also have democratic ideas like "people are the foundation of the state" and "people are more important than the emperor" as well as the idea of "great harmony" where "a public spirit ruled all under the sky." We also have the spirit of hard work and unrelenting efforts as exemplified by the foolish old man who removed the mountain, materialist ideas which stress interpersonal relations and snub demons and monsters, as well as concepts of democracy and science which we have assimilated in more modern times. All these have played an important part in the formation and development of the Chinese nation. They are the quintessence of traditional Chinese culture, the life-blood of the ever-growing Chinese culture. We should carefully identify, carry forward and develop them. No doubt there are many aspects of our traditional culture which are conservative and backward. They are the dross of feudalism. These include the hierachal concept which preaches that "there is distinction between the honorable and the lowly, between the noble and the mean"; idealist philosophies like "nature does not change, neither does the way," "interaction between man and nature," and "unity of man and nature"; moral codes like "the emperor is superior to his ministers, the father his son, and the husband his wife"; the practice of putting the rule of man before the rule of law; as well as the special privilege mentality, such as the idea that "rituals do not apply to the masses, punishments do not apply to officials." These, particularly feudal autocracy and obscurantism developed over the years, are obstacles to social development and progress. They should be eliminated, criticized and negated. Whether outstanding or backward, they affect our everyday life. Thus, we have to adhere to one principle, which is, to "discard the dross of feudalism and assimilate the quintessence of democracy." However, some people do not even want to hear of the word "criticism." They think that we should rightly and confidently honor Confucius and should

study Confucian ideas in the Confucian spirit. Obviously these people only have their eyes on the good aspects and have overlooked the backward aspects, or refused to recognize their existence. This is not the attitude of seeking truth from facts.

**Reporter:** Actually, traditional Chinese culture has gone through a lot of changes. This aspect shows that culture is invariably closely related with reality.

**Ding:** True. Our traditional culture is changing all the time. This is particularly true when our country is strong and therefore can boldly assimilate nourishment from foreign cultures. The Chinese culture had enriched itself through the assimilation of Buddhist culture, Arab culture, Persian culture and even Roman culture during the Han and Tang Dynasties and the assimilation of Western astronomy during the Ming and early Qing Dynasties. It demonstrated its magnanimity and greatness through this process. It was only in more modern times when China was challenged by the capitalist culture that intense conflicts occurred. The three stages of these conflicts coincided with the process of the exertion of the influence of Western culture over Chinese life and precipitated China's progress. The first stage, from the Opium War to the eve of the 1898 Reform, saw China being forced to learn about the West. Western science and technology were translated and imported into China. It was mainly a time of learning the materialist aspects of the Western culture. The second stage, from the 1898 Reform to the 1911 Revolution, saw China making its first encounters with Western political thoughts. The theory of evolution, the theory of natural rights, ideas of freedom, equality and universal fraternity, and the concept of from the people, to the people, by the people, began to spread. At that time, the main focus was still on political reform, with Kang Youwei [1660 2589 3634] and Liang Qichao [2733 0796 6389] advocating constitutional monarchy, while Dr Sun Yat-sen called for the establishment of a democratic republic. Of course, be they reformists or revolutionaries, their understanding and preachings of democracy, human rights and freedom were not quite the same as what they stood for in the West. The principal difference was that they did not serve the needs of capitalist competition in China. They emphasized the importance of the emancipation of man and, proceeding from patriotism and the need to save and govern the country, emphasized the importance of having an independent and strong country. Thus, they believed that human rights and freedoms must be subject to restrictions. Dr Sun Yat-sen even held the view that the Chinese had too much freedom rather than too little, and that this excess of freedom resulted in the whole nation being like a basin of loose sand. This is a misunderstanding. Because old ideas had not been completely eradicated, there was an adverse current to revere Confucius and return to the old ways after the 1911 Revolution. The third stage saw the May 4th new culture movement. The failure of the 1898 Reform and the 1911 Revolution made some people with insight see that it was no use just trying to reform the system. They

came to see the need to reform people's ideas and concepts. Hence, they publicized democracy, freedom, human rights and science in a big way, emphasized the importance of character emancipation, and advocated individuality, the elimination of superstition and the emancipation of the mind. Studies and propaganda at that time had already touched on the deep structure of feudal ethics and morality and clearly called for the toppling of Confucianism. This pushed forward the development of the Chinese revolution. However, because the revolution soon entered into a stage of armed struggle, the great task of eradicating feudalism was left undone. After the founding of new China, this was again overlooked, as a result of which backward elements of our traditional culture remained and became a heavy burden weighing down on our social progress. Thus, I think that we still need to promote and popularize the spirit and concept of science and democracy among the people.

**Reporter:** What do you think is our basic experience as far as the relationship between Chinese and Western cultures goes?

**Ding:** Of course Western culture is also made up of the quintessence and the dross. Compared with feudalistic culture, it is more advanced because it was developed on the basis of socialist mass production. However, since liberation our basic attitude toward it had been one of negation and rejection. Very rarely do we recognize that it has its reasonable elements, that there are aspects worth learning from. No effort has been made to introduce or study these aspects. In so doing, we have sealed off our minds and blocked the channels through which our national culture can absorb nourishment. This is an unscientific attitude. The fact is, Marxism—the cream of the culture of mankind—was born in the West. Thus, in our present endeavor to reform and open the country to the outside world, we must strive to comprehend, import and assimilate the culture of the West, and do so discriminately. If we do this indiscriminately, importing the advanced and useful along with the decadent and harmful, the decadent would combine with what is backward in our traditional culture to form something weird, something which is neither here nor there, a kind of vulgar culture which cannot really be called culture, such as those hooligans and Teddy boys which roved the Shanghai Bund before liberation. In short, the question of correctly handling Eastern and Western cultures means that we must, under the guidance of Marxism and in the spirit of democracy and science, critically carry forward that which is outstanding in traditional Chinese culture, assimilate that which is useful in Western, and create a new socialist culture.

**Reporter:** Quite a lot has been done in recent years as far as the introduction of Western culture is concerned. This is very useful for breaking the ideological blockade.

**Ding:** The assimilation of culture must begin with introduction, which is a good thing in itself. However, it is inevitable that bad things will be introduced along with

the good. That is why we must have a discerning eye and be able to distinguish the good from the bad. For example, we have been introducing and even publicizing the best, the luxurious and extravagant ways of life in the West. As a matter of fact not everyone in the West lives like that. On the contrary, many of the people there live a very simple life and have simple needs. Influenced by what they have read, many people lose their integrity as a Chinese and as an individual for the sake of enjoyment. It can thus be seen that cultural studies and publicity may lead to undesirable consequences if they are not handled properly. We must be able to look at traditional Chinese culture and imported culture with a discerning and critical eye. Some of us are not as forward-thinking as Liang Qichao who lived at the turn of the century. On this question, Liang once said: "I have my eyes and ears and I have my own ideas. Born in this civilized and bright world, with knowledge ancient and modern, Chinese and foreign, at my fingertip, I can sit in my study. I can make my own judgment, select what is good and discard what is bad. This is indeed the best that a man can hope for." His was an independent and critical spirit that can enable one to open up new worlds.

**Reporter:** We can imagine that cultural studies will go on as new problems keep coming up in reality. What should we watch out for in our study?

**Ding:** First, we must conduct our study in depth rather than merely skim over it. At present, there are a lot of studies going on, but they are rather shallow and remain at the level of discussion, even at a conceptual level. Take the study of Confucius for instance, there are very few comprehensive and systematic writings. Some of the writings concentrate on the good aspects, while others stress the negative aspects. Some maintain that the Confucian philosophy is mainly about rites, while others argue that it is mainly about benevolence. Some believe that Confucianism may be modernized and can promote modernization, while others think that it can only dissolve modernization. All these arguments have to be studied in greater depth, because general discussions on the theoretical level cannot solve problems. What has Western culture gone through from the Renaissance and the Enlightenment movement to the 1980's? This must also be studied in depth. A simple negation or affirmation cannot convince anyone.

Second, we must overcome one-sidedness, thinking that when something is good, everything about it is good, and when something is bad, everything about it is bad. This metaphysical problem exists at present both in the study of traditional Chinese culture and the study of Western culture. It is one-sided to: equate traditional Chinese culture with feudalism and fail to see its quintessence, fail to see the changes to traditional culture in modern times, particularly since the dissemination of Marxism; think that traditional culture is mainly humanism [ren-wen zhuyi], humanism [renben zhuyi] and imperial authoritarianism and totally negate it, failing to see its

achievements during the May 4th period in overthrowing Confucianism; think that the development of the economies of the "four small dragons" is the result of the application of Confucian theories, failing to see it as the development of the capitalist mode of production itself; assume that China can lead the world in its march forward just because some foreign scholars are emphasizing the doctrine of the mean and moral ethics; or think that everything foreign is good and everything Chinese, be it philosophy, social science, literature or art, is inferior and therefore have no confidence in our nation. Confucianism is one-sided in that it stresses duty at the expense of gains, fetters the mechanism of competition and hinders the development of the commodity economy. However, it is just as undesirable to work only for gains and forget about our duty, practice fraud and cheat one another. Some people attribute the current unhealthy trends to the opening to the outside world but fail to see the influence of the feudal idea that special privileges go with position. On the other hand, some people are aware of the latter but fail to see the former. They are all being one-sided. Thus, in our cultural studies, we must read more fundamental writings on Marxism and learn to analyze problems with a historical and dialectical viewpoint. If one proceeds on the basis of interest or indignation and does not master the materialist viewpoint of history, it will not be possible to bring about advancement in science.

Third, we must proceed from reality in our cultural studies. At present, comparative study of Chinese and Western culture is being carried out in many different disciplines of study. This raises the question of the basis of comparison. Some people think that comparison can only be made on the basis of the same mode of culture. In other words, we can only compare Chinese feudal culture with European culture in the Middle Ages, but cannot compare Western capitalist culture with Chinese traditional culture. This viewpoint does not tally with the historical reality of the comparative study of Chinese and Western culture and is not conducive to social progress. The comparative study of Chinese and Western culture began toward the end of the 19th century, when China was defeated. Many people came to realize China's backwardness and the need to learn from the West through comparing Chinese and Western culture at a given point in time. "A Comparative View of Chinese and Western Culture" by Li Dazhao and "Differences Between Chinese and Western Culture" by Chen Duxiu both compared Chinese culture in the 20th century with Western culture of the same period. If we compare feudal culture with the Middle Ages in Europe, China would have many "firsts" to boast of and would not feel a sense of crisis. This would prevent it from moving ahead. We make comparisons in order to look forward, not to look backward. This year being the Year of the Dragon, people are talking about the dragon everywhere for one reason or another. The dragon was originally a totem which was worshipped and which later became a symbol of feudal monarchy. It was a crime punishable by beheading for a commoner to don the dragon robe. In

fact, the dragon had kept China bound up for thousands of years. It would be much wiser for us to learn a bit more about democracy, science and the modern consciousness than to talk glibly about the dragon.

In short, cultural studies and discussions in recent years have been meaningful and will help enliven the academic world, bring about cultural prosperity and enhance people's understanding. However, if we simply study culture for its own sake, divorce from reality and make no attempt to find out how cultural studies can meet the needs of modernization and the development of spiritual civilization, our enthusiasm will soon cool off. Historical experience has proven and will continue to prove that if culture ignores reality, reality will ignore culture. Thus, in our cultural studies we need to further clarify our purpose of study, which is, to find out the laws governing its development and tell people why China remained backward, what are the reasons in terms of culture, what experience and lessons are there to learn from, which aspects of the Chinese culture should be discarded and which aspects should be carried forward, in order that people can make still better progress.

### **Reform Has Relieved the Modern Drama Troupe of Its Crisis**

40050324h Beijing HONGQI /RED FLAG/ in Chinese  
No 11, 1 Jun 88 pp 36-38

[Article by Wang Zhihong [3769 1807 3163], head of the Ningxia Drama Troupe]

[Text] It was in 1980 that our Ningxia Drama Troupe began to feel the crisis and it daily became more evident. In 1983, we performed eight shows, while in 1984 we performed one show. In the audience there were but two people, one of whom was the head of the literature and arts office, while the other was a cadre from the same office. What was to be done? A sense of mission and sense of responsibility meant that we were not willing to readily sink. In 1985, we started to carry out reforms and shifted our work focus from the cities where there were plays but no audiences to villages where there were audiences but no plays to watch, and started to open new fields for the dramatic arts. Over the last 3 years or so, we have performed over 650 shows and income has exceeded 100,000 yuan. This is the highest level realized since the formation of the troupe. Our troupe has been appraised as one of our autonomous region's advanced collectives in the building of the two civilizations. Previously, when performing at Jinjiang, we also received commendation and an award from the Ministry of Culture. Below, I will talk about what we have learned through practice.

The "breaking" of the iron rice bowl made the actors love performance. Usually actors should actively compete for roles. However, in the last few years, the actors, even during rehearsals, were not competing. People played the roles they were allocated and if they were not allocated roles, so much the better as they could then go

and act in film and television roles. Why was this? It was because no one watched the plays and there were no benefits for individual actors. However, if one was in a film or television production, even in a minor part, while it would not lead to fame, at least the income was assured. In order to allow the actors to love performance, we "broke" the iron rice bowl and allowed performers to obtain a little individual material benefit from their performance. Thus, beginning in 1985, we instituted the "dramatic groups contracted responsibility system" management rules. The specific practice was as follows: After the script was selected, the director responsibility system was instituted and the director would, in accordance with the demands of the characters in the script and his own artistic concepts, allocate roles. There was then division into two or three drama groups, people were appointed to take on the contracts, and the groups were made responsible for their own operations. The troupe administration subsequently distributed a document on the contracted operation responsibilities. In this it was stipulated that for the first 10 shows, 30 percent of takings had to be handed up to the troupe administration. For the next 10 shows, 20 percent had to be handed up, while for the subsequent 10 shows 10 percent had to be handed up. For any shows in excess of 30, none of the takings had to be handed up. Ningxia is a wide region with few people and performing troupes can only really serve the masses if they move around. Thus the troupe administration also provided to each of the drama groups a 2,000 yuan subsidy for transportation costs. Apart from the amounts which had to be handed over to the troupe administration, the takings were all under the control of the drama groups themselves. However, the groups also had to meet all the accommodation, business trip, food and performance costs by themselves. The contract also included quality requirements, work style requirements and so on. After the contracted responsibilities document was distributed, the troupe administration signed a contract with each of the contracting persons, and then the contracting persons signed contracts with each of the performers. The contents of the contracts were very detailed and for each person the rights and responsibilities as well as the discipline they were required to observe were set down. By this means, the quality of the performances and the material incomes of the performers were joined together. As soon as the contracts came into effect, the drama troupe quickly changed and there were many new aspects. The enthusiasm of the performers for performance was unprecedentedly high. Before performers had to be sought for performances but now the performers vied for roles in performances. Previously, during performances, a bottle of makeup remover was used every two shows, but now the bottle lasts more than 10 shows. Previously, the makeup removing paper was used indiscriminately, but now one or two sheets is enough for each performer. Before the equipment was old and frequently damaged, but now it does not get damaged so much, as whoever damages it has to pay compensation.

The performance focal point has been shifted to the rural areas. The performers love performing, but if there is no audience to watch them, they cannot do much. How is such a situation to be handled? We did a serious analysis of the population situation in Ningxia and found that of the population of 4 million, 3.2 million live in the rural areas. The provincial capital Yinchuan has 400,000 people, but of these only 180,000 are urban residents. The other 220,000 live in villages. In Yinchuan city, there are 17 dance halls and 117 places for watching videos. According to the broadcasting and television departments, the per capita rate of color television possession is the highest in China. Also, there are other sports events, fashion shows and so on. Even the movie theaters are cold-shouldered, so what hope was there for drama troupes. If we continued to blockade ourselves in the large venues in the city, the crisis could only get more serious. Was it possible to leave the city where there were plays with no audiences and push into the villages where there were people but no plays to watch? After this idea was put forward, suddenly all sorts of opinions were put forward within the troupe. Some said: "We are the official provincial drama troupe, and cannot become a horseback drama troupe." Others said: "Drama is high-class art. Peasants will not understand it at all." However, the majority of the comrades felt that as we had been to the villages before and the peasants had watched the performances and enjoyed those which were to their taste, the problem only lay in that we had not gone there often enough and had not cultivated a peasant drama audience. Now that the peasants were rich, and their demand for culture had inevitably grown, it was appropriate to go to the villages to perform and see the results. When this was firmly decided upon, the relevant leading departments of the autonomous region gave timely encouragement and support to our plans and, from the high plane of reform, fully affirmed this action.

In the past, the peasant masses in the Ningxia region liked to watch Shaanxi opera. Very few liked to watch drama and it was quite unfamiliar to them. In order to select a play suited to performance in the rural areas, everyone set about making suggestions and offering advice. From a large number of plays, "Weddings and Funerals" was selected. In order to appeal to the peasants' preferences, we bravely experimented by performing the play in the Ningxia dialect. After fixing the itinerary, we called a "Weddings and Funerals" performance negotiation meeting, to let the peasant masses see the "goods" and to let them "first try before buying." On the evening of 28 December 1984, we invited the township and village heads, the specialized households and the ordinary peasants from the suburban areas of Yinchuan to the drama troupe's practice hall and received them as if they were dignitaries. They were deeply moved. After the performance, they said: "This play is true to life. Those uncivilized things appeared to be happening right by our side. It was also enjoyable. One moment we were crying and the next we had to burst out laughing...." They also put forward many insightful suggestions for improvements. Some apparently minor

suggestions played a great role in increasing the vigor and life of the performance. They said: "Grandma Zheng should be wearing a wristwatch. You go to the villages and have a look. Every 70- or 80-year-old woman will be wearing a watch. They may not be able to tell the time, but if they have the money they will buy a watch. It is like wearing a bracelet." "In your play, people are wearing traditional peasant jackets. They are only for country bumpkins. Nowadays the people in the villages do not wear these. We wear everything that the city people do. It is just that when we wear them we do not look so smart." When we heard these ideas, we were truly convinced and subsequently when we performed we would always listen to ideas and change the performances as required. At the first negotiation meeting, we contracted for 26 shows, and we drew benefits from this "performance negotiation meeting." Thus subsequently wherever we went, we had negotiation meetings. Through the method of negotiation meetings, we put on 200 shows of "Weddings and Funerals" and 100 shows of "The Deceased Visits the Living." Any extra benefits from "Weddings and Funerals" went to the local organizers, and we had to ensure that we had plays to sell. At the beginning of the creation process, we held negotiation meetings, by which the "customers" (audiences) were first told the story and they were asked, if this story was made into a play, would they buy tickets or not? After getting an affirmative answer, the script was written. After this was completed, it was again given to the "customers" to read. When their approval was obtained, the play was put into rehearsal. After the rehearsals were completed, new negotiations were entered into. "This Sort of Farmer," which we created, was arranged in this way and was warmly welcomed by the peasant masses. We have already performed 70 shows of this play and many areas have invited us to go and perform.

For the convenience of mobile performers, we have turned the troupes' truck into a "covered wagon." All around the truck are colorful pictorial posters, while the sets and major equipment sit on the roof. Inside the truck are placed the lights, the costumes, and the makeup boxes. The members of the troupe sit on the boxes and they can go wherever they want to perform. They can come and go as they wish. Thus they do not place any added burden on the peasants. This "covered wagon" has taken the troupe to performances in 90 percent of the autonomous region's county seats. Over 40 percent of townships and small towns have seen our performances. The peasants call us "the covered wagon of happiness." We have gone to all those places which have not seen a drama troupe since liberation. In June 1987, we climbed the highest peak at Liupanshan and put on a performance for the seven armed police who are on guard there. After we had climbed the mountain, they all cried and the squad leader said: "This is my happiest day since I enlisted 3 years ago." Others said: "Here we have a 20-inch color television and we do not lack artistic activities. However, we want to have contact with living people. The people on the television cannot come out to talk with us!" When we went back down the mountain,

they escorted us every step of the way and they hoped that we would come back every year. In order to facilitate the watching of drama by the peasants, the time and place of performances are decided by the audiences. Sometimes the performances are in the morning, sometimes at noon. Sometimes in the evenings the performances have to give way to popular television programs and the performance does not go on until 11 o'clock. Sometimes the performances are in halls, sometimes on platform stages and sometimes in school playgrounds. During the last 3 years, we have performed from January to the end of June and performed in temperatures ranging from -20 degrees to 35 degrees Centigrade. In the severe winter, we take the sun to the audiences and in the high summer we bring them some shade.

As we truly serve the peasants, the performances are welcomed by the peasants and the sight of peasants watching a play is truly moving. Each time we perform, the audience is packed so tightly at the front that water could not leak through. Some young people stand on their bicycles so as to be able to watch the show. Those young women who come late stand on a stool while holding their babies and, without any rails to hang on to, breast-feed their babies while watching the performance. The old people cannot push to the front and thus they put their stools under nearby trees and with one hand holding the tree for support, they watch the play. They often stand like this for 2 hours. After the end of "Weddings and Funerals," it often occurs that women want to drag us to their houses to have a discussion and tell us whose responsibility it is when a daughter is born. Old people ask where the next show will be. They want to let their children see it, as their children are not filial and obedient. When "This Sort of Farmer" is over, the village cadres hold meetings to study the concept of "helping people in their determination as a way of helping the poor." They appraise our play as being better than Shaanxi opera. Some also say that from beginning to end our plays do not have songs, but that they can be said to be better to listen to than songs. Because the social effects of the plays are good, many areas, as soon as they hear that we are coming to perform, go out to meet us and treat us like honored guests and like relatives.

After the drama group operation contract responsibility system was implemented, there was a need to stress artistic quality. In order to guarantee the performance quality, there was a need to strengthen management and use the law to govern the troupe. To this end we stipulated strict "Rehearsal Regulations," "Performance Regulations" and "Regulations on Shooting Films and Television Programs." Violators of these regulations are subject to economic sanctions and other punishments. If during performance, there is a mistake in the scene or the sets or violations of other disciplines, they are handled in accordance with the regulations. CPC members and all cadres above the middle level are subject to double penalties for violating the regulations. In the last 3 years, we have issued punishments on 25 occasions. There were

no objections to any of the punishments. Since these regulations were instituted the mistakes have become increasingly few and the quality of the performances has been guaranteed.

The drama performances are given at the grass-roots level and the conditions of work and living conditions are quite arduous. Thus, political and ideological work must be strengthened. To this end, the performance teams have all established party groups and the party member comrades have been required to play a role as models and leaders, and to assist the contracting person to complete the performance tasks. As the party organizations have maintained popular morale and promoted unity, the prestige of the party has risen greatly and 80 percent of the young people in the troupe have written applications to join the party. In the past there were many in the troupe who complained, who quarreled and were abusive, and few who just set to work. Now there is a strict post responsibility system and there are the effects of the model and leading roles played by party members and cadres. Thus suggestions and advice are often put forward, a lot of stress is placed on unity and work is done quickly and well.

**22d Lecture of Forum on Socialist Commodity Economy: Taxation in a Socialist Country**  
40050324j Beijing HONGQI [RED FLAG] in Chinese  
No 11, 1 Jun 88 pp 39-42, 43

[Article by Jin Xin [6855 9515]]

[Text]

#### **I. Status, Nature and Roles of Taxation**

Taxation is an archaic category of finance developed in the light of emergence of a country. Essentially, taxation is a special kind of distribution relationship relying on political power, which is brought about by a forced and payment-free collection of taxes paid in kind or in money based on a prescribed rate. Marx pointed out: "The economic manifestation of the existence of a country is taxation." ("Collected Works of Marx and Engels," Vol 1, p 181)

A taxation system develops in the light of the progress of society. Judging from the contemporary situation of the world's countries, tax revenue is not only the prime source of fiscal revenue of a government but also an important lever for both macroeconomic and microeconomic regulation. This fully shows the objective requirement of and inevitable tendency about commodity economic development.

The nature and roles of taxation are determined by the essence that develops such relationship. Both the nature and roles of taxation are different under different social systems. Capitalist taxation is based on the private ownership of the means of production, symbolizing the interests of the bourgeoisie, particularly the monopoly

capitalist class. It is used as a tool for exploiting and suppressing the labor masses, as well as safeguarding the rule by the bourgeoisie. China's socialist taxation is based on the public ownership of the means of production. Any increase of tax revenue is subject to the socialist economic development. At the same time, the state systematically utilizes the funds collected in the form of taxation for developing such undertakings as the socialist economy, science, culture, education, public health, national defense, and so on, thereby ensuring a constant improvement of the people's material and culture life, as well as their living standards. China's taxation system symbolizes the basic interests of the labor masses. "What comes from the people is used for the people." This is essentially different from the approach adopted by the old society, in which the exploiting class imposed harsh and numerous taxes.

The nature of China's taxation system determines its basic task, which is to serve in an unswerving manner the general goal of realizing the socialist modernizations of the state. Specifically, the main points about the functions and roles of China's socialist taxation are indicated as follows:

First, tax revenue is the main source of financial revenue of the state. Following the full-scale reform development of the taxation system, tax revenue has already become the prime source of financial revenue of the state. The proportion of industrial and commercial taxes to the financial revenue of the state, which was 46 percent in 1978, has reached beyond 80 percent. In the wake of the economic development, as well as the work of strengthening the collection of taxes, China has successively experienced a sharp growth in tax revenue, thereby providing a reliable guarantee for a stable growth of the state revenue, and the development of various undertakings.

Second, taxation is an important means of the state for strengthening the macroeconomic control. It is therefore positive to the development of the national economy. Facts have shown that under the conditions of the socialist commodity economy, it is impossible to promote economic operation by simply relying on mandatory planning and administrative instructions. We must turn this kind of direct control mechanism into an indirect one in which various economic levers are coordinated with each other and play their roles. Tax revenue is just a flexible and effective economic lever to be used by the state for indirect control. It has played a positive role in the areas of reforming, production development, readjustment of accumulation and consumption, and so on.

Third, taxation is an important form in which the distribution relationship between the state and enterprises is correctly handled. The substitution of profit delivery by taxation broke through the age-old profits distribution system for state-owned enterprises, in which revenues and expenditures were handled in a unified

manner by the state, and everyone ate from "the same big pot." It has determined by law the distribution relationship between the state and enterprises in the form of taxation. We may, basing on this point, further rationalize the distribution relationship between the state and enterprises by perfecting the taxation system and the business mechanism of enterprises, so as to make enterprises truly become the socialist commodity producers and dealers who autonomously run their business and assume sole responsibility for their own profits and losses.

Fourth, taxation is an important means for strengthening the financial supervision. At present, taxation has directly affected all areas and sectors of reproduction of society, as well as all aspects of production and operations by enterprises. Furthermore, its role of supervising the microeconomic activities is becoming more strengthened. Under the new situation of separating government administration from enterprise management, as well as strengthening the indirect control, this kind of supervision has become significant for urging enterprises to improve their production and business management, and to improve their economic results and observe financial discipline.

Fifth, it safeguards the interests of the state, and promotes economic exchanges with the outside world. In order to implement the policy of opening to the outside, China has, in accordance with the principle of "imposing light taxes, giving preferential treatment leniently and simplifying procedures," formulated a series of regulations on taxation concerning foreigners. These regulations have helped China conform to the new situation where the foreign economic exchange is ever-changing, as well as protect the economic interests of China.

## II. China's Construction and Reform of Industrial and Commercial Taxation System

Over the past 30-odd years, China saw a turbulent development of our construction of an industrial and commercial tax system. Between the days shortly after the founding of the state and the late 1950's, China adopted a complex taxation system marked by a variety of taxes. This system was in line with the situation at that time, in which various kinds of economic factors coexisted. In addition to playing a positive role in promoting the state's socialist transformation of agriculture, handicraft industry, as well as the capitalist industries and commerce, it also promoted the restoration and development of the national economy. However, during the 20-odd years after the socialist transformation was basically completed and up to the convention of the 3d Plenary Session of the 11th CPC Central Committee, the taxation system was simplified and some taxes were combined into one though the system was periodically reviewed. Particularly, it became a single tax system after 1973 in which the industrial and commercial tax was introduced. The state-owned enterprises were simply subject to the industrial and commercial tax, while

the collective enterprises were subject to both the industrial and commercial tax and the industrial and commercial income tax. Consequently, taxation could only become a means for organizing the financial revenue, while its proper function of being an economic lever was largely ignored.

Following the 3d Plenary Session of the 11th CPC Central Committee, China entered a new historical period, so did its work of tax system construction and tax collection. In the wake of implementing the principles of opening up to the outside and invigorating the interior part of China, China has recently changed in many aspects its economic structure and its modes of production and operations. This thus requires new and better standards for the work of tax collection. As the original base of the tax system was excessively simplified, however, we could neither make the system promote production and economic readjustment nor ensure a steady growth of the financial revenue of the state. Obviously, we must promptly put an end to this kind of situation.

In order to conform to the situation of reforming and opening up, China began in 1978 the investigation and study on reform of the taxation system. In 1981, the State Council approved the suggestion by the Ministry of Finance on reforming the industrial and commercial taxation system. The pace of reform in this respect was quickened thereafter. This round of reform began with the establishment of a taxation system involving foreigners. Between 1980 and 1981, China formulated its individual income tax law, the income tax law on Sino-foreign joint equity ventures, and the income tax law on enterprises owned by foreigners. This thus basically met the needs for expanding the scope of opening up and that of international economic exchanges. Basing on a series of comprehensive investigations and studies, as well as the experience of experimental units, China started in 1983 the first step of substituting profit delivery by taxes. The core content of the work was to replace the age-old practice of profit delivery by state-owned enterprises by imposing income taxes on them. China started the second step of the work in 1984, and launched a full-scale reform of the industrial and commercial tax system. Later, China further introduced some new taxes in the light of the needs of economic development. As a result of our reforms in recent years, we have basically achieved the general goals of reforming the industrial and commercial tax system, which was set forth in 1981.

Currently, there are 24 categories under China's industrial and commercial tax system, namely product tax, value-added tax, sales tax, salt tax, tax on resources, income tax on state-owned enterprises, readjustment tax on state-owned enterprises, income tax on collective enterprises, income tax on individual industrial and commercial households in urban and rural areas, income tax on Sino-foreign joint equity ventures, income tax on enterprises owned by foreigners, individual income tax, individual income adjustment tax, tax on bonuses, wages

adjustment tax, construction tax, special tax on petroleum consumption, urban construction maintenance tax, property tax, vehicle and vessel usage tax, land use tax (yet to be imposed), tax on slaughtering animals, livestock transaction tax, and tax on markets and fairs. Of the above 24 categories, circulation taxes and income taxes are the two main streams of taxation, accounting for more than 90 percent of the tax revenue. This indicates that China's industrial and commercial tax system has undergone fundamental changes. It has emerged from a single tax system into a complicated tax system marked by its multiple, varied and multilevel readjustment functions. It has also emerged from a tax system featured by circulation taxes into the one featured by both circulation taxes and income taxes. Coordinating with other special taxation systems, it functions properly both in terms of financial revenue and economic readjustment. Therefore, the new tax system has further met China's requirements for its socialist commodity economic development, and has greatly promoted China's reform of the economic structure as well as its development of the national economy. Facts have shown that the direction chosen by the 3d Plenary Session of the 11th CPC Central Committee was correct. The results are remarkable and reforms are successful. It is absolutely correct that both the CPC Central Committee and the State Council took the tax system reform as a key of the urban economic structural reform to handle the distribution relationship between the state and enterprises, to invigorate the economy, to strengthen the macroeconomic control, and to promote the socialist commodity economic development.

### III. Several Questions About the Understanding of Tax Collection

Some comrades stated in discussions that the tax burden was much heavier now as there were so many tax categories. We should substantially analyze this statement. First, we should acknowledge that the number of tax categories is increased when compared with that before the tax system reform in 1984. But the point is that the system was simplified without any comprehensive study. The number of tax categories was so limited that it just could not meet the needs for China's reform of the socialist commodity economy and the economic structure. The present 24 categories under the industrial and commercial tax system are gradually established in accordance with the economic development and the requirements of policies. Each category has its particular subject and goal. Through taxation not only can we accumulate construction funds for the state but also give play to the manifold and multilevel readjustment functions of various tax categories. Second, the number of tax categories in China is fewer than those of many developed countries, such as the United States and Japan, and developing countries, such as India and Mexico. In particular, unlike some countries where localities are allowed to impose exorbitant taxes and levies, China's taxation legislative power is held by the central government. Third, some people have misunderstanding about

the tax categories. For instance, some think that an enterprise will be subject to the 20-odd kinds of taxes after establishment. Such case will never happen. This is because a product is no longer subject to the value-added tax after its product tax is paid. An enterprise will be free from other kinds of income taxes once it has paid the income tax on state-owned enterprises. Nevertheless, some people cannot distinguish taxes from charges, and collectively called statutory charges levied by some departments as "taxes." Charges are not taxes, and the two are different in their functions. Fourth, the perfection and reform of tax system need a process of understanding, as well as implementation, as does the rational formulation of tax categories. In accordance with the economic development and the needs of reform, we may add some new taxes, as well as simplify, combine or abolish some of the existing ones. Proceeding from the rationality of tax system, we should, subject to the condition of economic rationalization, simplify and standardize the tax system. For instance, China now has eight kinds of income taxes, which were formed in the light of reforming and opening up to the outside. We may later gradually simplify and combine them into two, namely enterprise income tax and individual income tax.

We should also specifically analyze the extent of tax burden. An important indicator for judging the extent of tax burden in a country is the proportion of financial revenue to its national income. In China, the proportion of financial revenue to its national income in recent years was about 25 percent (the percentage was always above 30 before 1978). This shows that generally speaking, China's tax burden did not become heavy following our reform of the tax system. Second, China's proportion of financial revenue to its national income is on the low side when compared to other countries. China is a socialist country, and its financial burden is much greater than that shouldered by capitalist countries in general. It undertakes the task of economic construction in addition to the ordinary government expenditures. This requires that the state must pool together a quantity of financial resources from various areas in order to accomplish the above task. Third, we should realize the difference between nominal tax rate and actual tax rate. The tax schedule states that the maximum tax rate on the enterprise income is 55 percent. Some enterprises are even subject to a certain proportion of adjustment tax. This seems that the tax burden is rather heavy. If we remove the repayment of loans, various kinds of deduction, tax reduction and exemption, and other preferential treatment before tax, however, the actual tax rate for them will not be so low. Presently, the actual tax rate for state-owned enterprises is about 40 percent on average, whereas that of collective enterprises was only about 20 to 30 percent. Such a level of tax rate is by no means heavy.

As some enterprises are not so vigorous, some comrades put the blame on the heavy tax burden. There are many internal and external factors contributing to the vitality

of enterprises. Of those external factors, taxation is a rather stable one. Moreover, the tax burden is not heavy. Nevertheless, these enterprises suffer from various types of apportionments, which have become the major additional financial burden for these enterprises. In addition, their vitality may be adversely affected by an imperfect management mechanism, poor management skills, and poor economic results. Furthermore, some enterprises do not use their profits rationally though they have retained a large portion of profits. Some of them distribute most of their profits as welfare funds and bonuses, and spend the rest on production development.

Some comrades lack the basic understanding about the nature, goals and roles of the socialist taxation. Intrinsically, they strongly oppose the exorbitant taxes and levies imposed by the old society. But they are not familiar with the taxes levied by the new society. In particular, under the influence of "leftist" thinking, people did not pay over the years due attention to the work of taxation. Some of the taxes were even regarded as capitalist things and were criticized. Therefore, some people are still ill-informed about the socialist taxation, and are not accustomed to the obligation of paying taxes. Some do not know that they should pay tax on their income. Some even do not know that acts of tax evasion are violation of law. This needs to be solved by means of popularization and propagation of tax laws, as well as the strengthening of the tax system.

#### IV. To Straighten Out Laws and Discipline on Taxation, Strengthen the Work of Taxation

Tax laws are a significant component of the laws of a country. Also, the construction of a tax system is an important content of the construction of state laws. Once the tax law system is promulgated, all localities, departments and taxpayers therein must abide by it, which goes without saying. In our present work of taxation, however, there have indeed emerged the problems of not observing laws, not enforcing laws and not executing laws. For example, some localities went beyond their taxation authority, and granted tax reduction and exemption without authorization. The phenomenon of tax evasion was quite common. It was quite common that some lawless people refused to pay taxes, laid siege to tax organs, and attacked tax cadres. Moreover, some tax cadres did not strictly enforce the law. The execution of tax laws was seriously hindered and hampered under these circumstances. Thus, the financial revenue of the state was greatly affected, to which we must pay close attention. There are various reasons contributing to the emergence of the above situation. In the wake of intensive development of China's planned commodity economy, as well as the economic structural reform, taxation has become an important economic lever of the state for the distribution of national income, and is playing an ever increasingly comprehensive positive role in all aspects of the socialist economic activities. Meanwhile, some contradictions among the state, enterprises, collectives and individuals in terms of material interests have

been prominently reflected in the work of taxation. Some units and individuals acted at the expense of the state, and evaded taxes or even refused to pay taxes, in order to safeguard their personal interests and interests of small groups. Some leaders of localities, departments and units also did not have a thorough understanding about the issue, gave little support to the departments on collecting taxes according to law, and did not seriously hit at acts of tax evasion. Some of them even tolerated them and dealt with them leniently, or handled such cases as ordinary civil disputes, so that the lawless people have become more arrogant. In addition, China's tax system needs to be further perfected and improved. The work of tax collection and administration needs to be greatly strengthened, and the quality of some 400,000 tax cadres needs to be further enhanced.

It should be pointed out that tax evasion is the violation of law and discipline, and an act infringing upon the interests of the state, by a small number of units and individuals for the sake of their personal interests. Its nature is bad and its effect is devastating. Such act has not only affected the normal progress of taxation, and brought about the loss of financial revenue of the state, but also corrupted the party spirit and the general mood of society, hampered the construction of law system by the state, and affected the progress of political and economic reforms, as well as the socialist modernizations of the state. Therefore, we must adopt effective measures and resolutely check this kind of violation of law and discipline, so that all acts are based on laws, laws are strictly enforced, and any violation of law is dealt with.

To unwaveringly depend on the correct leadership of the CPC Central Committee, the State Council and party and government organizations at all levels is the basic guarantee for working in the work of taxation. The tax departments must mutually cooperate with other relevant departments, and win support and assistance from various areas. They must further strengthen the contacts, and make concerted efforts with all relevant departments in order to work out the systems of and corresponding measures for formulating and strengthening the collection and administration of taxation, as well as pegging the loopholes. Moreover, they must launch a full-scale propagation on the work, and spread widely the significance and roles of socialist taxation in China's modernizations. They should propagate the contents of tax laws and regulations and the spirit of such policies, and that the socialist taxation is keeping in line with the people's interests. They should boost among enterprises, institutions and the people the social practice of observing laws and waging struggles against tax evasion, so that society will understand and support the work of taxation.

Tax cadres must always place top priority on the interests of the state, handle matters impartially, collect taxes strictly in accordance with law, and unwaveringly struggle to the end against such violation of laws and discipline as tax evasion, in order to safeguard the dignity of

tax laws of the state and ensure that the financial revenue of the state will not be infringed upon. At the same time, they must further strengthen the construction of China's socialist tax system, intensify the administration of taxation, and work hard for the sake of building a scientific and well-organized socialist administrative system of taxation marked with Chinese characteristics.

**23d Lecture of Forum on Socialist Commodity Economy: Foreign Exchange and Exchange Rate**  
 40050324k Beijing HONGQI [RED FLAG] in Chinese  
 No 11, 1 Jun 88 pp 43-47

[Article by Tang Gengyao [0781 6324 1031]]

[Text]

### **I. Foreign Exchange and Exchange Control**

#### **1. What Is Foreign Exchange and Exchange Control?**

Foreign exchange refers to the use of foreign currency to indicate various kinds of credit tools and means of payment for international settlement. All foreign currency deposits in foreign banks, foreign currency bills, various kinds of foreign currency payment vouchers payable abroad, stocks settled in foreign currency, foreign currency bonds and other kinds of acceptable foreign currency assets in repayment of international debts, as well as convertible foreign currency notes, are collectively called foreign exchange. Like gold, it is a component part of a country's reserve assets, in addition to being a means of payment for international debt settlement.

Foreign exchange is developed in the light of the development of economic and trade relations among countries. During the days of barter trade, there was neither the settlement of currency nor the problem of foreign exchange between two countries. In the wake of development of the social productive forces and the social division of labor, however, there was the expansion of commodity production and commodity exchange. Trade relations developed among countries. The development of international trade formed a world market. When capitalism reached the stage of imperialism, international investment grew constantly, and the flow of short-term capital reached a gigantic scale. The international circulation of commodities and the shift of capital brought about the relations of credit and debit, which must be settled according to the agreed terms when it becomes mature. As every country uses its own currency, the currency of a country cannot be circulated in another country. Therefore, a country generally does not use its own currency to settle its international debts. Debtors have to convert its own currency into an internationally acceptable foreign currency before repaying debts to its creditors, thereby bringing about foreign exchange.

In order to maintain a balance of international payments and a steady foreign exchange level, most developing countries now impose control over foreign exchange. Foreign exchange control, or foreign exchange administration, refers to the control of all foreign exchange payment, transactions and international settlement by foreign exchange control laws, decrees, regulations and system formulated by a governmental organ (the ministry of finance, the central bank or the state administration for foreign exchange control) designated by the government of a country. The scope of control includes trading foreign exchange, nontrading foreign exchange, capital export and import, exchange rate, foreign exchange market and foreign currency deposits in banks.

China imposed foreign exchange control after the founding of the state. In December 1980, the State Council promulgated the "Provisional Regulations of the PRC on Foreign Exchange Control." The governmental organ responsible for the control in China is the State Administration for Foreign Exchange Control and its bureaus. China's tasks of foreign exchange control is to maximize its organization of foreign exchange resources, save foreign exchange expenditures, and distribute and utilize in the most reasonable way its sources of foreign exchange revenue in connection with the needs of socialist economic development; as well as to maintain a balance of international payments and safeguard the state's good foreign reputation.

## 2. Foreign Exchange Payments and Reserves

Foreign exchange payments are currency payments derived from the foreign economic activities of a country. The payments include ordinary revenue and expenditures, as well as exchange of capital.

First, ordinary revenue and expenditures. The term refers to the ordinary and the most important items of revenues and expenditures in the foreign receipt and expenditure of a country. This includes: 1) foreign exchange payments for commodity export and import; 2) foreign exchange payments for nontrading transaction such as tourism, transportation, posts and telecommunications, insurance, banking, port facilities and services, and exchanges between governmental institutions; 3) revenue and expenditures derived from noncompensatory transfer such as remittance from nationals residing abroad, noncompensatory aids and donations, subscription fees payable to international organizations, and noncompensatory revenue granted by international organizations.

Second, exchange of capital. This mainly reflects the capital export and import of a country. Judging from China's situation, it includes the investment by foreigners and people from Hong Kong and Macao regions in wholly owned enterprises, joint equity ventures and cooperative ventures in China, bonds issued abroad by China, funds borrowed from foreign countries and Hong

Kong and Macao regions, funds loaned by foreign countries from China and China's overseas investment, as well as deferred payments under the import and export trade.

International reserves refer to gold and foreign exchange directly payable by a country to settle foreign payment derived from international trade, reserve cash at the International Monetary Fund, the special right of withdrawal granted by the International Monetary Fund to its member countries for settlement of foreign payment, as well as loans granted by the International Monetary Fund. The international payments (ordinary items plus capital items) of a country are in surplus when its foreign reserve is increased; and the international payments are in deficit when its foreign reserve is decreased.

The level of international reserve indicates a country's capacity of foreign payment and debt repayment, as well as the creditworthiness of its currency. According to the international practice, the international reserve of a country must be kept above the level equal to the sum of that country's total import for 3 months.

## 3. To Encourage Export, and Promote a Balance of Foreign Exchange Payments

China is a developing country. The shortage of foreign exchange funds will be a long-standing prominent issue for the state in the future. In order to accomplish the modernizations and technically transform the national economy, we must import advanced technology, key equipment and necessary raw materials in large quantity, though the main source of foreign exchange is the export of commodities. As a very large portion of China's export commodities are primary and secondary products, and the quality of its industrial products is poor and less competitive, they are vulnerable to price fluctuation in the international market and the influence of protectionism. Furthermore, there is insufficient supply of export goods because China's aggregated demand has already exceeded its aggregated supply. Its growth of foreign exchange revenue derived from export will therefore fall behind that of foreign exchange needed for import. At the same time, the foreign exchange payments will not be balanced as we need to reserve in the coming years part of our foreign exchange for the repayment of foreign debts together with interest thereon.

In order to solve the issue about the balance of foreign exchange, we must strengthen our macrocontrol over foreign exchange. We must start the work from two aspects: First, we should strive to expand our sources of foreign exchange, increase our foreign trade and export, improve the exchange rate and develop labor export and technology export, and increase such nontrading development revenue from such sources as tourism, international shipping, navigation and insurance. Second, we

should save foreign exchange, properly control the utilization of foreign exchange, and spend foreign exchange on the most needed areas so as to achieve the best economic results.

Our prime task is to support and promote export. The proportion of foreign exchange revenue derived from export now accounts for more than 80 percent of China's foreign exchange revenue. To a very large extent, its capacity of earning foreign exchange through export affects the scale and progress of economic construction in China. China will launch on a full scale in this year the contracted responsibility system for foreign trade. In order to encourage foreign trade enterprises to assume sole responsibility for their own profits and losses and to develop export, the state has actively set up foreign exchange adjustment centers in various provinces, autonomous regions and municipalities directly under the central government. It has also established in Beijing a national foreign exchange adjustment center for handling the adjustment of foreign exchange among state-owned enterprises, collective enterprises and enterprises using foreign capital. The price of adjustment is subject to negotiations by the two parties in accordance with the situation of foreign exchange supply and demand. Through market regulation, the foreign trade enterprises and export-oriented enterprises are compensated with their costs together with some profits. Their initiative for operations and production is therefore mobilized, while the economic results of utilization of foreign exchange funds are improved. We must do well in export supervision and in earning foreign exchange, establish a system for examining foreign exchange derived from export, help enterprises promote their export, improve the supervision and control, and promptly collect the repayment of export loans.

In the wake of current changes in such conditions as labor charges and continuous readjustment of industrial structure in the developed countries, labor-intensive industries are moving toward places which charge lower labor charges. The labor charges levied by China's coastal areas are relatively low, the labor quality there is better, the places are easily accessible, and the basic facilities are quite good. In particular, their capability of science and technology development is better than many developing countries. We must make use of our advantages and take this opportunity to take part in the international exchange and competition, and to greatly develop export-oriented economies. In order to support the development of combining labor-intensive industries and labor- and knowledge-intensive industries in the coastal areas, support the development of town and township enterprises, encourage these enterprises to develop processing with imported materials, and expand the foreign exchange revenue, the state has drafted a series of measures for supporting them in the areas of renminbi and foreign exchange funds. For example, the state grants export credits and gives preferential interest rates to enterprises that earn foreign exchange through export; grants foreign currency loans to export-oriented

enterprises that process imported raw materials so as to solve their needs of revolving funds for importing raw materials; and so forth. Furthermore, the state will relax its foreign exchange control. Both the central and local governments will allocate part of their foreign exchange to enterprises as revolving funds, and as funds for importing raw materials to be processed for export purpose. At the same time, products made by technologically advanced enterprises are allowed to be sold in China's domestic market in order to receive payment made in foreign exchange.

## II. Exchange Rate and Renminbi Exchange Rate

### 1. What Is Exchange Rate?

Exchange rate is an exchange ratio between two currencies. It can be said that the value of a country's currency is indicated by another country's currency. When there is a mutual exchange of two countries' currencies, one of them must first be chosen as a yardstick. There are two kinds of quotation: The first one is called the direct quotation, that is the conversion of a unit or 100 units of a foreign country's currency into the currency of one's own country, such as the amount of renminbi in terms of US\$100. Currently, most countries (including China) adopt this approach. The amount of foreign currency is fixed so that any increase or decrease of the currency of one's own country indicates devaluation or revaluation of one's own country's currency. The second one is called indirect quotation, in which a unit or 100 units of the currency of one's own country is converted into those of a foreign country's currency, such as the amount of Japanese yen in terms of pound sterling. Both the United Kingdom and the United States are adopting this approach. The amount of the currency of one's own country is fixed so that any increase or decrease in the amount of converted foreign currency indicates devaluation or revaluation of his own country's currency.

### 2. Factors That Determine the Exchange Rate

Marx pointed out: "Foreign exchange rate may change because of the following reasons: First, the difference of payment at a time, that is, no matter what causes such difference, any cash payment to a foreign country derived from the following—purely because of commercial reasons, overseas investment, or national expenditures such as wartime expenditures. Second, devaluation of a country's currency. The same situation applies to both metallic currency and paper currency...." ("Complete Works of Marx and Engels," Vol 25, p 668) Marx emphasized here the two factors that determine changes in the exchange rate, that is the value of international payments and the value represented by a country's currency. The ratio between the magnitude of values representing two currencies is the basis of their exchange rate. Like commodity prices, exchange rate fluctuates in the light of changes in the parity rate representing the values of various countries' currencies as a result of changes in the supply and demand relations

on the foreign exchange market. A country's balance of international payments directly affects its supply and demand of foreign exchange. This kind of supply and demand relations determines changes in the exchange rate, and plays a major role in terms of fluctuation of exchange rate on the market.

The exchange rate has been changed frequently after the adoption of floating exchange rate by the Western countries in 1973. Factors that cause changes in the exchange rate can be summed up and classified as purchasing power parity, international payments, interest rate parity, government intervention, speculation, and so forth. Though the factors are getting more complicated, and there are these and those theories, facts have shown that interest rates cannot make a long-term effect on exchange rate. Government intervention makes no change in the basic trend of exchange rate, while speculative activities can only intensify the fluctuation for a short time. In the long run, the basic factor determining the exchange rate is changes in the international payments and changes in the value of currency itself caused by inflation. The Marxist theory on exchange rate is still the theoretical basis of our study on exchange rate.

### 3. Influences of Exchange Rate on International Payments

#### First, devaluation and revaluation of currency.

Devaluation of currency is the reduction of parity rate of the currency of one's country against a foreign currency. When inflation in a country becomes very serious, its currency gradually devalues, which must be shown in terms of exchange rate sooner or later. This is because any internal devaluation of currency, as well as price rise in a country's domestic market, will inevitably bring about its external devaluation. Therefore, the original exchange rate must be changed and the parity rate of that currency against foreign currencies must be reduced. The revaluation of currency is the increase of parity rate of the currency of one's country against a foreign currency. Some countries adopt the measure of revaluation of currency, in order to check the incoming flow of foreign exchange, to ease their internal inflation, and to avoid being affected by the impacts caused by international floating capital.

#### Second, the role of international payments regulation played by exchange rate.

Exchange rate is a lever for regulating import and export trade, and can stimulate or check the import and export of a country. Under the circumstances that other conditions remain unchanged, a reduction of exchange rate of a country's currency will cut the sale price of its export commodities quoted in foreign currency, and will improve their competitiveness on the international market or increase the profits of foreign trade enterprises quoted in their own currency. Export trade is therefore promoted. At the same time, the reduction of exchange

rate will push up the cost of imports, as well as the prices of import commodities quoted in the importer's currency, thereby reducing the profits derived from import or even turning them into losses. On the contrary, if the exchange rate of a country's currency is increased, import trade will be promoted while export trade will be checked. Changes in the exchange rate can also regulate the flow and capital and the development of tourism. For countries that attract foreign investment, the level of their exchange rate will affect the actual investment sum and proportion of foreign investment quoted in their own currency; will affect the actual purchasing power of foreign investment in terms of capital construction, purchase of equipment and raw materials, and the payment of wages; and will affect the actual return of investment at the time of remittance. When the exchange rate becomes excessively high, investors will prefer investment in kind to cash investment in order to avoid losses, which is unfavorable to the encouragement of investment. Under the circumstances that prices remain unchanged or rise a little bit, the devaluation of currency helps attract more tourists, thereby boosting tourist development. To put it in a nutshell, exchange rate plays a regulatory role in the international payments.

### 4. Exchange Rate of Renminbi and Its Reform

The exchange rate of renminbi is formulated, adjusted and announced by the State Administration of Foreign Exchange Control, which is one of China's prime tasks about foreign exchange control.

Before the convention of the 3d Plenary Session of the 11th CPC Central Committee in 1978, China adopted the practice of state monopoly of foreign trade. In accordance with the import and export plans formulated by the state, various foreign trade corporations under the Ministry of Foreign Trade centralized the operations of the trade. They were under the system of unified import and export accounting, and collectively assumed responsibility for their profits and losses. The exchange rate of renminbi under this system was divorced from the import and export realities. The rate was so high that it could not play its proper role of economic leverage. Starting in 1979, however, China gradually reformed its foreign trade administrative system. The business of import and export trade, which was in the hands of a single department, was gradually handed over by various departments. The authority to import and export some of the commodities was decentralized to localities and import-export companies under other departments. Moreover, enterprises producing commodities for export are allowed to directly engage in the import and export trade. These companies and enterprises are urged to practice independent accounting, assume sole responsibility for their own profits and losses, and put an end to the situation of "eating from the same big pot." Meanwhile, the state uses economic lever to indirectly control them, instead of exercising its direct control over them by administrative means. After China opened up to the

outside world, both the scale and quantity of foreign investment utilization has been on the increase, and the direct investment by foreigners has been growing constantly. The inflow of foreign capital, the export of goods produced by enterprises using foreign investment, and the import of their raw materials, need a rational exchange rate. Therefore, an excessively high exchange rate of renminbi cannot meet this need.

China has been reforming its exchange rate system starting in 1981.

First, the state implemented on trial basis the foreign exchange quotation for internal clearing as from 1 January 1981. The exchange rate of renminbi against U.S. dollar was 2.8 yuan for settling foreign exchange payments arising from import and export trade. The purpose is to develop foreign trade, encourage export while checking import, and promote the practice of foreign trade economic accounting. At the same time, in accordance with changes in exchange rate on the international market, the state continues to adjust and announce the statutory exchange rate of renminbi, which is mainly for the purpose of exchange and foreign exchange payments settlement derived from nontrading activities.

There have been difficulties in implementing this system of exchange rate. In the wake of continuous rise of U.S. dollar exchange rate, the statutory exchange rate of renminbi was gradually lowered. By the end of 1984, the exchange rate of renminbi was at the same level as the quotation for internal quotation, which was eventually abolished on 1 January 1985.

Second, between 1 January 1985 and 5 July 1986, the exchange rate of renminbi against US\$100 was lowered from 279.63 yuan to 370.36 yuan, or by 24.6 percent. The reasons of adjustment were: First, in the wake of development of China's economic structural reform and the commodity economy development, the price of agricultural and sideline products, as well as that of some industrial products, were open to market changes. The price level was on the increase so that there was the need to change the exchange rate of renminbi in accordance with the price fluctuations of the national and international markets. Second, China had been experiencing deficit of international payments since 1985. Its foreign exchange reserve was dropped. Therefore, there was also the need to appropriately adjust the exchange quotation in order to encourage export and to balance the international payments.

Third, China presently adopts a system of exchange rate in which the official exchange rate and the market rate coexist. The official exchange rate is the prime exchange rate of China, is announced by the State Administration of Foreign Exchange Control, and is applicable to foreign exchange dealings between the state banks and enterprises and individuals. Besides, we have established foreign exchange adjustment centers in various provinces, autonomous regions, and municipalities. Foreign

exchange retained by state-owned enterprises and collective enterprises, as well as foreign exchange of enterprises using foreign investment, are allowed to be transacted through the foreign exchange adjustment centers. The adjustment quotation is determined through negotiations by the buying and selling parties in accordance with the local situation of foreign exchange supply and demand. The difference between the market rate and official rate is formed by the irrationality of China's pricing system, the dislocation of price ratios among various export commodities, and the difference between domestic and overseas prices.

In short, China's recent reform of its system of foreign exchange is an effective one. It has helped promote the practice of opening up to the outside, the development of foreign economic relations and trade, as well as the balance of international payments. Though the exchange rate of renminbi is lowered after repeated adjustment, its effective exchange rate is still rather high because of the constant price rise in China's market and the continuous drop of commodity prices on the international market. We should in future continue to rationally adjust the exchange rate in accordance with changes in China's domestic and international markets.

**Let the Fire of Ideals Burn Even More  
Brilliantly—After Watching the Teleplay  
'Wedding Candles'**

400503241 Beijing HONGQI [RED FLAG] in Chinese  
No 11, 1 Jun 88 p 48

[Article by Chen Huifang [7115 1920 2455]]

[Text] On the television screen is projected an attractive pair of wedding candles decorated with scrolling dragons and phoenixes. According to Chinese customs, they should be lit during the wedding ceremony to convey well wishes for the new couple and as a symbol of happiness and good fortune. Due to the spirit of sacrifice on the part of the male and female protagonists, however, the candles remain unlit. As the viewers watch the slain and dying Song Fangfang lying in the arms of her beloved husband Chen Jianhua, struggling with the last bit of her energy to light the candles but failing, and her raised arm dropping abruptly, they cannot but feel deeply disturbed.

The six-episode teleplay "Wedding Candles" produced by the Jinan Television Station (screenplay by Jiang Zeshan [1203 0463 0810] and directed by Xi Yuming [1598 5280 2494]) is both stimulating and touching. It is an adventurous yet sad story set in the anti-Japanese war years and recounted by a general. The play does portray the pure and innocent love of boy meets girl, but as I see it, the playwright's intention here is to show, through the young couple's pursuit of their ideals, an admirable outlook on life and sense of value. The play highlights the spirit of the candle—a willingness to sacrifice oneself and burn oneself in order to light up the lives of others. In those difficult and stormy years when the nation was

in trouble, many warm-blooded young men and women of the Chinese nation who were concerned about the plight of their country and their people and craved for brightness would sacrifice everything personal for the cause of national salvation. Some of them replaced their long gowns with coarse cloth jackets and went among the workers and peasants to publicize the need to fight Japanese aggression for national salvation. Some of them walked out of their studies and threw away their pen to fight behind the enemy line or on the anti-Japanese front, building a new Great Wall with their own flesh and blood. Some of them defied family opposition, left their comfortable homes and made their way to Yanan in spite of great hardships along the way. They searched, ran errands, shouted slogans, fought battles. They were indeed the proud sons and daughters of the era, the heroes and heroines of the nation.

A contributing factor to the success of the play lies in its artistic portrayal of Chen Jianhua and Song Fangfang as a young couple coming from families of the exploiting class who resolutely gave up the comfort of their homes and joined the anti-Japanese struggle led by the CPC. They regarded it their duty to serve the country, and their supreme goal was to see the nation independent, the country strong and the people happy. It was this sense of value and outlook on life that prompted them to burn their torch of youth and light up the lives of others. Their experience represented the glorious but arduous path traversed by a generation of intellectuals. The past serves to provide stimulation for people of later generations. This sense of value and outlook on life which prompted our revolutionary predecessors to sacrifice themselves for their ideals will also positively stimulate the young people of today who are working for the four modernizations.

In "Wedding Candles," the personality and mentality of the male and female protagonists, their beauty, courage, wisdom and emotions, are portrayed in different perspectives through intense struggles between the enemy and ourselves and through deep emotional entanglements. Song Fangfang, an underground party member of Yanhai city, was hounded by the enemy because their liaison point was smashed. She was rescued by Chen Jianhua, the son of a rich merchant. This was a chance meeting, but it was also something inevitable. Chen Jianhua was a young man with a sense of justice and patriotism. Progressive-minded, he had been active in student movements and was eagerly looking for the Communist Party.... These brilliant qualities were the elements which inevitably prompted him to risk his own life to save a communist suspect. The "false wedding ceremony," the brave encounter and several other much talked about episodes have been well-developed and are full of suspense. They serve to build up the dramatic climax. These scenes vividly portray the undaunting spirit of the hero and the heroine while appropriately depicting their growing admiration for each other. Song Fangfang defied hardship and worked on her own behind the enemy line. She exemplified the spirit one

expects to see in a communist. Although the part is rather idealistic in a certain sense, the viewers still find her role convincing, endearing and worthy of esteem because the author dared to write about "emotions." With a fresh, delicate and sincere touch, the playwright meticulously presented before us not only the passion within the heart of the young woman but also the beauty of human nature which is both healthy and noble.

"Wedding Candles," which proceeds from the logic of characterization and the development of life, is a fascinating story, vividly told. It is at once ideologically inspiring and entertaining. However, it is not without blemishes. For instance, the first episode is too slow-moving, some characters are not clearly presented, certain details are not very reasonable, the costume and the set at times cannot quite reflect the period style, and Song Fangfang's death scene seems rather contrived. But taken as a whole, it is a good play which enables the people of the older generation to relive the past and inspires the younger generation with its lofty outlook on life and sense of value.

#### The Microeconomic Base for Perfecting Market Mechanism

40050324m Beijing HONGQI [RED FLAG] in Chinese  
No 11, 1 Jun 88 inside back cover

[Article by Xu Xuezhen [1776 1331 3791] of the Social Sciences Department of the Beijing Chemical Industry Institute]

[Text] If we are to implement the practice of "the state regulating the market and the market guiding the enterprises," we need to have a microeconomic base which can both accept market guidance and which can also react sensitively to market information. Seen from the present situation, there exist several problems in this respect: 1) The state-owned enterprises still have "one eye on the government and one eye on the market" and they lack the motivation and sense of urgency to accept the guidance of the market. For example, they hope to get cheap goods and materials through state-planned allocation and they strive to obtain allocation quotas for means of production which are in short supply. They also hope that the upper levels will assist and give them approval to raise the sales price of products and there is haggling in the negotiations about contract base figures. 2) Enterprises have still not truly become commodity producers and operators geared to the markets and responsible for their own operations and for their own profits and losses. Also the problem of responsibilities, rights and interests being divorced from one another has still not been basically resolved. 3) The phenomenon of soft budgetary restrictions in the areas of financing and credit is still very serious. For example, the current system of credit repayment prior to the payment of taxes actually means that an enterprise's credit and interest is being repaid on its behalf by the financial administration. Also, the situation where working funds were "managed in a unified way" by banks has changed

to one whereby the banks take "overall responsibility" for these funds. This has meant that enterprises have not been able to free themselves from reliance on the state, and participate in market competition.

If we are to resolve the above-mentioned problems, I believe that first we must deepen the reform of the enterprise operational mechanisms, develop the contracted operation responsibility system, clearly set down the risks and benefits relationships in enterprise production operations and push enterprises on to the road of responsibility for their own operations and responsibility for their own profits and losses. Only thus will we be able to shift enterprises' focus of attention from external to internal, have them "watch the market" instead of "watching the government," have them change from stressing convenience and cheap prices from above, to where they seek to exist and develop in the market, and have them strengthen their ability to respond to the market and their ability to compete in the market.

Second, we must change, through the use of macroeconomic regulatory measures such as taxation, credit and pricing, the abnormal phenomena found in enterprises under different ownership systems, particularly in various types of state-owned enterprises, whereby there are distinctions made between those closely related and those distantly related. This will allow the various types of enterprises to enter the market as equal competitive adversaries. This includes, in accordance with the principle of fair taxation, promotion of competition and reflecting industrial policies, and the gradual reform of the present taxation system. In particular, at the same time as reducing income tax levied on state-owned enterprises and abolishing the system of a separate

regulatory tax rate for each enterprise, we should implement unified tax types and tax rates on enterprises of different ownership systems. We must as quickly as possible change the existing practice whereby credit is repaid before payment of taxation, and overcome the phenomena produced by this, phenomena such as soft restrictions in financial and credit matters and unfairness between enterprises in the use of credit. It is also necessary to promote a situation whereby funds supply has more of a market nature. Thus old credit can still be repaid in accordance with the old practices where principal and interest are repaid prior to taxation, while new credit will in principle employ the system of credit repayment after tax has been paid. Through the deepening of price reform we must gradually realize a transition from state fixed prices to the establishment of a mechanism for forming market prices, and ensure that the pricing mechanism, as the core of the market movement mechanism, is able to fully bring into play its market guidance role. We must gradually hand the formation of prices in the general sense over to the market and use the price of funds, interest rates and dividends to regulate the supply of and demand for funds. Exchange rates should be used to regulate the supply of and demand for foreign exchange and the import-export trade, wage levels should be used to regulate the supply of and demand for labor and land rent prices should be used to regulate the supply of and demand for land. We should also strictly separate price formation and necessary state subsidies, change hidden subsidies into obvious subsidies and realize the transition from the present double-track system to a single-track system.

/06091

END

**END OF**

**FICHE**

**DATE FILMED**

**9 Aug. 1988**